business and economic review

DIVISION OF RESEARCH ■ COLLEGE OF BUSINESS ADMINISTRATION ■ THE UNIVERSITY OF SOUTH CAROLINA

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by C. Glyn Williams

"The Employer and Employment Laws"
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This month's cover: James W. Emens, Director of BA Placement, advises a student prior to her job interview.

Is Inflation Demand-Pull or Wage Push: and Are We Learning Anything?

By C. Glyn Williams

INTRODUCTION

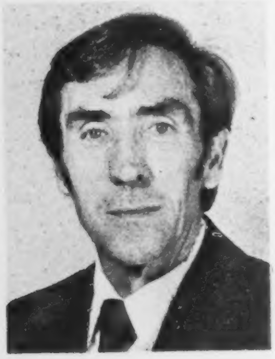
It is an understatement to say that there is disagreement over the cause(s) of inflation. As the following quotations show, economists' opinions diverge widely.

> There seems little immediate prospect that we shall be able directly to eliminate that determination of wages by collective bargaining which is the ultimate cause of the inflationary trend, or that we can reimpose upon trade unions the restraint which in the past stemmed from the fear of causing extensive unemployment. [F.A. von Hayek, "The Outlook for the 1970's: Open or Repressed Inflation" in **A Tiger by the Tail** (London: Institute of Economic Affairs, 1972), p. 117.]

> The world we now live in is one in which the monetary system has become relatively elastic, so that it can accommodate itself to changes in wages, rather than the other way about. Instead of actual wages having to adjust themselves to an equilibrium level, monetary policy adjusts the equilibrium level of money wages so as to make it conform to the actual level. It is hardly an exaggeration to say that instead of being on the Gold Standard, we are on a Labour Standard. [J. R. Hicks, "The Economic Foundations of Wage Policy," **The Economic Journal** 39 (September 1955): 391.]

> Inflation is always and everywhere a monetary phenomenon resulting from and accompanied by a rise in quantity of money relative to output. Despite its popularity, this cost-push theory of inflation has very limited applicability. Unless the cost-push produces a monetary expansion that would otherwise not have occurred, its effect will be limited to at most a temporary general price rise, accompanied by unemployment, and followed by a tendency toward declined prices elsewhere. [Milton Friedman, "What Price Guideposts," in G.P. Shultz and R.Z. Aliber, **Guidelines: Informal Controls and the Marketplace** (Chicago: University of Chicago Press, 1966), pp. 18 and 21.]

> What we have today is an inflation fueled by the fact that we have given many groups in the economic system, through social and institutional changes, a lot of discretion over these wage and price increases. They can use that discretion to bring about increases in wages and prices that are not necessarily responsive to market conditions. In other words, despite the fact that we like to say the economy is competitive, many sections of the economy are, in fact, not competitive today. [**A Conversation with the Honorable Barry Bosworth: Coping with Inflation** (Washington, DC: American Enterprise Institute, 1978), p. 4.]



Dr. C. Glyn Williams is Professor of Economics in the College of Business Administration at The University of South Carolina. A native of Wales, he earned his B.A. Degree at the University College of Wales and his M.A. and Ph.D. Degrees in Economics from Victoria University of Manchester and the University of Virginia, respectively. The recipient of numerous scholarships and fellowships, Dr. Williams has taught at the University of Alberta, Indiana University, and Boston College, and serves as a Consultant to "Choice-Books for College Libraries" and as a Consultant on Manuscript Evaluation in Principles of Economics and Labor Economics for Holden-Day, Wiley, Worth, and McCutchan Publishers. He is also the author of **Labor Economics: The Changing Labor Scene** (John Wiley & Sons, Inc.) and a number of monographs, articles, papers, and book reviews; and is listed in **American Men and Women of Science** and **Contemporary Authors.**

> If the sociological view of inflation is not too convincing in explaining the direction of changes in rates of inflation across countries and the timing of these changes by appealing to the existence of demonstration effects, its failure is complete in accounting for the similarity of levels of inflation across the major economies during the 1960's . . . [I]nflation during the 1960's was an international monetary problem, U.S. expansive monetary policies being largely responsible for the acceleration of price rises . . . in the reformed international monetary system there should be international control of the growth of the world money supply. The emergence of a country as a **de facto** world banker, which is what the USA had come to be under the IMF system, is inimical to the objective of world price stability. [G. Zis, "Inflation: An International Monetary Problem or a National Social Phenomenon," in M. Parking and G. Zis (eds.), **Inflation in Open Economies** (Manchester University Press, 1976), pp. 13 and 21.]

> The frank answer to the question "Why have wages risen year in and year out over the post-war period?" is "We don't know." . . . "Conclusions . . . must be seen in the context of qualifications and reservations in which they were offered . . . Unions 'seem' to have some effect on the pace of wage inflation, so do the tightness of the labor market, price expectations, and so on. But we only have tentative corroboration of these propositions." [J. Burton, **Wage Inflation** (London: Macmillan, 1972), p. 86.]

This article is an attempt to put into perspective the apparent role of unions in inflation — a role that is becoming clearer as new data sets become available through the continually developing data collection programs of the Bureau of Labor Statistics. One further brief word of introduction is to note that demand-pull inflation is defined as a general rise of prices emanating from an excess of demand at current prices. This demand can be denoted either in the Keynesian terms of an excess of the sum of consumption, investment, and government expenditures over current output at current prices, or in the monetarist terms of an excess of the product of the money supply and its velocity over the product of the current price and output totals.

Cost-push inflation is defined as a general rise of prices emanating from the cost side of the production process, as a profits push, raw materials cost push, or wages push, depending on its source. Beyond this, in turn, is the assumption that such cost-push reflects in higher prices rather than in unemployed resources because of an accommodative monetary system that "justifies" the cost increases either as a political response or as an automatic system response to the needs for an expanded money supply. It would also be in order to say that this article deals primarily with **wage** push and does not treat the other two possible cost components of a cost-push system.

Inflation is one of the major problems of current times. Since World War II, there has been an outpouring of thoughts on it as an economic, and, more recently, a political issue. Despite this, however, many basic questions are still the subject of intense debate and, in essence, remain unanswered. No more basic question could be asked about the crisis in economics that inflation poses than, "Why is it such a crisis?" Is it that no one knows why inflation occurs? Or, is it that scholars know why a society can have inflation, but have no idea what causes it to accelerate? Or, is it that scholars know all the "whys" but not the solutions? Or, is it that they know the causes and the solutions but choose as a society to suffer inflation as a lesser evil than its cure?

On none of these questions is there any hard-and-fast ideological position. Marxists and Liberalists may be found blaming the money supply or unions as the cause of inflation. Among the solutions both a Liberalist, such as Milton Friedman, and a Marxist, like Joan Robinson, are likely to be found decrying the inability of the monetary and fiscal authorities to control the system. The underlying bases of their arguments may differ but the results are the same, i.e., the conclusion that control variables or policy instruments are, in the present state of knowledge, more system determined than determining.

What if unions are the cause of inflation: is the problem easily solved? Joan Robinson, the brilliant Cambridge (England) Marxist economist, believes that advanced capitalism depends for its existence on unions having the right amount of power. If they have too little, then the economy will stagnate because demand fails to rise to keep pace with growing output that results from capital accumulation and technological change. If they have too much power, then the system will collapse from accelerating inflation. Henry Simons of the University of Chicago also believes that unions have this power of life and death over capitalism. He wrote in 1944: "Here possibly, is an awful dilemma; democracy cannot live with tight occupational monopolies, and it cannot destroy them, once they attain great power, without destroying itself in the process."[1] As Joan Robinson puts it:

> . . . [T]rade unions are not an alien element in capitalism but an absolutely necessary part of its mechanism. Trade union pressure which counters monopolistic tendencies and keeps profit margins in check is necessary in order to make it possible for profits to be realized. A strong labor movement is required to rescue capitalism from its "internal contradiction." But if it is strong enough to do so, it is liable to be strong, and to make a chronic vicious spiral.[2]

Milton Friedman also sees this possibility, not so much as a capitalist contradiction but rather as a defect of judgment or as a result of neglect. In his words:

> The difficulty is not so much that strong unions will produce inflation as that inflation will produce strong unions . . . And the movement may not be reversible if the addition of the political power of the strengthened unions to the other forces making for increased intervention by the state . . . leads, albeit unintentionally, to a collectivist form of society.[3]

Thus, causes and policies run the whole political spectrum. What are the causes of this intense intellectual trauma that throws together writers of such widely diverging ideologies? Why does such disagreement exist?

REASONS FOR DISAGREEMENT

The Complex Nature of Inflation

The reasons for the wide variety of opinions on the role of unions in inflation are many. First, inflations hardly ever repeat themselves in terms of their immediate causes, and the same causes do not necessarily both originate and sustain a given inflation process. Most economists would agree with those two propositions. However, as always in economics, there are the important exceptions. Milton Friedman holds that inflation is "always and everywhere" a monetary phenomenon, based, of necessity, on a too rapid growth of the money stock. Phelps Brown, of the London School of Economics, insists equally adamantly that inflation is, at virtually all times, traceable to cost-push, especially wage-push, factors. Looking back over the past century, Brown tells us that what has to be explained is why money incomes have risen persistently "in varied states of money supply." This phenomenon he attributes to a monetary system that has always accommodated "the needs of trade." Moreover, he says, this is not simply a feature of the high employment policy of the post-1945 years. He observes that even before 1914 "at which time economists assert there was no mechanism to provide the extra money or to induce a rise in money flow, a rise in prices could induce a rise in the quantity of money."[4]

Despite the misgivings of these two noted scholars, however, inflations are best viewed as complex phenomena. At the end of World War II there was a large volume of pent-up demand that has to be regarded as the most important factor in that inflation period. The Korean War expenditure and the speculative buying that the war shortages generated are the primary reasons for the excess demand of the early 1950's, just as the war spending in Vietnam explains the inflation of the late 1960's. In the late 1950's, when growth was sluggish, writers emphasized other factors, in particular — key wage bargains in steel and railroads. These were held to influence the general price level via their spillover into other wage bargains and through the industries' importance in the input-output structure of the economy. In the middle 1960's, the expanding union membership at all levels of government almost certainly had an impact on government taxes and spending and on compensatory wage increases to maintain take-home earnings. In 1970, construction wages were rising at a rate of 33 percent a year and in the years immediately following 1970, the OPEC revolution, the bad winters, and the spot shortages brought on by controls arrived.

Looked at generally over the whole period from 1950 onwards, money wages have increased faster than productivity, the Federal budget has been in chronic deficit, the money supply has increased faster than output, and the rate of turnover of that money supply also has been rising secularly. The net result has been an inflation-prone system. In such an environment human expectations provide a basis not only for predicting, but also for explaining the future from the present. Thus expectations have come to play a key role in the inflation process.

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[1] Henry C. Simons, "Some Reflections on Syndicalism," **Journal of Political Economy** 70 (March 1944): 4.

[2] Joan Robinson, "Full Employment at Inflation," **Collected Economic Papers** 2 (1964): 278.

[3] Milton Friedman, "Significance of Labor Union for Economic Policy," in D. McCord Wright, **The Impact of the Union** (New York: Kelley and Millman, 1956), pp. 230 and 231.

[4] E.H. Phelps Brown and Sheila V. Hopkins, "The Course of Wage Rates in Five Countries 1860-1939," **Oxford Economic Papers** NS 2 (June 1950): 243.

It is not surprising, therefore, that different explanatory models fit inflation. Models drawing on data for single inflation periods or subperiods cannot necessarily be generalized. For one period, a "spillover" model from the union sector to the nonunion sector will give good results, but for some other periods, an opposite spillover process will be intuitively more realistic.

Complex Relationships among Data

A second reason why there are a wide variety of opinions on the role of unions in inflation is that not only are the sets of facts varied but also any given set may be interpreted in a number of ways. Frequently, the variables that would be intuitively regarded as supporting a cost-push explanation of a particular inflation process correlate with other variables that would support a demand-pull explanation. Thus, for example, rates of change of unionization or rates of work stoppage, both of which have a cost-push flavor, correlate with changes in employment or unemployment, rates of price changes, or expectations of future wage and price changes. Often it is difficult to know the causal relationship among the many variables or to guarantee their independence.

Inadequacies of Available Data

Third, there are so many weaknesses in the information sources that many times at crucial stages the available data do not support the kind of rigorous testing of models that would provide a basis for comparing their explanatory reliability. Does the money supply initiate changes in wages and prices, or is it a response to the needs of trade? Are there autonomous factors causing wages to rise, or do they rise in response to the market's needs for various kinds of labor?

MONEY SUPPLY OR UNIONS?

As the quotations at the beginning of this article indicate, there is no agreed set of answers. Studies show that current rates of price changes are determined by the previous growth rates of the money stock (i.e., 2, 4, or 5 years past), or by the trend rate of growth of the money stock over a period of several years. Meanwhile, a headline in a March 5, 1979, **IMF Survey** reads: "U.S. Money Supply Goals Set to Curb Inflation Rates and Protect Dollar in 1979." If the above mentioned studies are correct, what the Fed does in 1979 will have an impact, at the earliest, in 1981. But the studies themselves do not agree. Its earliest impact could be 1984.

A research effort by Jung Duk Lim, a doctoral student in Economics at The University of South Carolina, goes some way towards identifying the process of causality among wages, prices, and the money supply, and thus helps to provide a tentative answer to the initiation-response (exogeneity-endogeneity) issue.[1] In Lim's simultaneous equation, inflation model price changes, wage changes, and money supply changes do not interact in a feedback process. Changes in the money supply affect the rate of change of prices and hence the rate of change of wages, but price changes and wage changes do not affect the rate of change of the money supply. If this study is correct, then union pressure is not a primary cause of inflation. If wages rise, this in itself does not cause the money supply to rise. The transactions velocity of that money supply may increase and hence support a once-for-all rise of prices. Or, there may be a money supply response that could only be detected by observing movements in some more widely defined money supply. Apart from these possibilities, however, inflation is a money supply phenomenon with the money supply being determined autonomously.

If Lim is correct, does it then follow that the inflation problem can be easily solved? What if the casual relationship is always from the money supply to wages and prices, and not vice-versa? Would there be any merit to discussing a possible role for wage-price control programs? Clearly, there would be, if only because neither monetary nor fiscal policy has proved itself a viable instrument in controlling inflation. Maybe the control of inflation is a function ultimately of monetary and/or fiscal policy, but that does not help much if they are control instruments in principle only.

In practice, problems in implementing both monetary and fiscal policies abound. Douglas Fisher summarizes some of those that arise in the conduct of an actual monetary policy.

> First, it is clear that the objectives of monetary policy — defined as values or ranges of certain key variables (for example, unemployment) or loosely, the variables themselves — are a) not always definite, b) frequently changed,

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[1] Jung Duk Lim, "The Relationship between Money Supply, Wages and Prices — A Simultaneous Equation Approach," Working Papers in Economics No. 1-1979, Department of Economics, The University of South Carolina, 1979. (Copies available by writing to the department.)

c) sometimes inappropriate, and d) generally unachievable all at once. Secondly, it turns out that the authorities have problems with the instruments (for example, open-market operations) in their policy arsenal; they are sometimes clumsy, often inappropriate, occasionally "noisy," and, too often, inefficient in their operation. Thirdly, the authorities possess neither a perfect model of the economy nor perfectly accurate data to feed into it if they had it anyway, with the result that they must grope their way to, at best, a short-run solution to their problem.[6]

Similar problems lessen the usefulness of fiscal policy as an instrument in the control of inflation. A large part of budgetary expenditures are autonomous relative to income, employment, and changes in prices. Some of the automatic stabilizers implicit in the fiscal system are automatic with respect to the volume of income and employment but not with respect to the rate of inflation. Thus they actually work **against** inflation control during periods of stagflation, i.e., when both unemployment and the rate of price change increase. Beyond these problems are those associated with the inflexibilities arising from the political nature of budgetary decisions, and the rigidities imposed by vested interests and the workings of bureaucracy. No one familiar with the wild gyrations of the Federal budget in the post-1966 years could possibly give much credence to the use of fiscal policy as a fine tuning policy instrument in the control of the economy.

Thus, if only by default, a case might be made for wage-price controls as a policy instrument. But controls, too, are imperfect, so that what really exists is a package of policy instruments of limited reliability. Small wonder then that the experts are not much help if two of the world's labor market analysts, John Dunlop (Harvard) and Phelps Brown, can say, in paraphrase,

> In the absence of a wise monetary fiscal policy program, unions are unlikely to stabilize the system and will probably further destabilize it. (Dunlop)
>
> In the absence of a wise and politically accepted wage policy, monetary/fiscal policies are unlikely to stabilize the system and will probably further destabilize it. (Brown)

THE WAGE RECORD

What does the record show about wages in the last two decades? In particular, how have union wages changed relative to nonunion wages during those years?

Before these changes are discussed, a few statements about how union wages generally stand relative to nonunion wages will be made. There may be exceptions to the rule, but, usually, union wages are higher than nonunion wages. To some extent this differential is a measure of the degree of monopoly power inherent in unionization. It is to be expected that union wages would be greater in a workable competitive industry that is 80 percent unionized than in one that is only 25 percent unionized. This accounts for the intensity of organizing drives to unionize competitive firms, and in the event of failure, the active union support for minimum wage legislation. It also explains impediments by unions, through economic or political sanction, to plant relocation.

A recent article by Brian Griffiths summarizes the state of knowledge regarding the size of this union differential.

> The seminal work in estimating the impact of how much more union members receive than comparable nonunion labor was undertaken by H.G. Lewis at the University of Chicago. He found that the effects of unions on the average wage of union labor compared to the average nonunion wage ranged from 25 percent or more in the 1930's to less than 8 percent immediately after the Second World War, and rose to around 15 percent by the second half of the 1950's. Studies in the U.S. since then using other evidence have all shown a significant effect. Using 1960 census data, Weiss found that wages of union male operatives and craftsmen were about 20 percent higher than comparable nonunion rates. Stafford, using Survey of Consumer Finance data, found it varied between 18 and 52 percent. Throop, using aggregate industry data, found it 25 percent in 1950 and 30 percent in 1960; using disaggregated data it was found that in highly unionized industries it was 38 percent while in highly nonunionized industries only 10 percent. . . .[7]

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[6] Douglas Fisher, **Monetary Policy** (New York: John Wiley & Sons, Inc., 1976).

[7] Brian Griffiths, "The Economics of Labour Power: Can Labour Unions Raise Real Wages?" **Trade Unions: Public Goods or Public Bads,** ed. A. Seldon (London: Institute of Economic Affairs, 1978), pp. 197-8.

Several points need to be noted.

1. The effect of unionism on the relation between union and nonunion wages is not constant. Instead, it varies positively with the degree of slack in the economy. A high unemployment rate tends to be associated with a widening union-nonunion wage differential, and a low unemployment rate with a narrowing of that differential. At the risk of oversimplification, it might be argued from this that changes in union wages are less repressive to current conditions of labor scarcity or abundance than are nonunion wages.

2. Unions vary in the extent to which they raise the relative earnings of their members.[8] Sobotka's study of building craftsmen shows a differential of possibly 25 percent in 1950. Greenslade's study of bituminous coal mining shows a differential of 33 to 42 percent over the period 1948 to 1952, and Rayack estimates the effect of unionization in men's clothing to be roughly zero between 1946 and 1957.

   A list of those industries in which unions seem to exert considerable influence on their members' wages would most likely include the United Mine Workers Union in bituminous coal mining, the Air Line Pilots Association, the barbers in some cities, the skilled workers unions in building construction, the unions of ocean-going seamen, and the UAW. Rees adds to this list of strong unions those of skilled craft trades in railroads, entertainment, and printing; the teamsters; and the steelworkers. It is also highly unlikely that the railroad-operating unions would have been so successful in negotiating favorable work rules had they not been powerful in the process of wage determination.

   Among the weak unions, Lewis cites the Amalgamated Clothing Workers Union, to which Rees adds the Textile Workers Union, the ILGWU, the United Shoe Workers of America, and the unions of white-collar government workers.

3. The influence of unionism in any particular sector is likely to vary over time. Lewis cites a relatively union/nonunion average wage ratio in excess of 2:1 for the United Mine Workers Union in the early 1920's. The growth of nonunion mine output and of management resistance to union claims in the 1920's lessened this relative advantage. Between 1956 and 1957, the differential was 48-58 percent, an estimate that probably exceeds the current differential in view of the shift in emphasis in union policy since the retirement of John L. Lewis. In men's clothing, the ACWU was, in the 1920's, a relatively strong union. Today, however, its power is negligible because of a declining demand for the product and the redistribution of the industry to more favorable locations in the South. In textiles and hosiery, the inability of the unions to organize nonunion plants has essentially destroyed unionism in these industries.

These, however, are point-in-time studies, and there is some doubt as to whether they really reveal anything about a union role in causing inflation. A better source is the table in this article, which gives a picture of the annual changes in union and nonunion wages from 1959 onwards. Several observations can be made from these data.

1. The data in row I.a) indicate that when the increases currently negotiated (or put into effect in the case of nonunion establishments) are considered, there are years in which nonunion wages were better than union wages (1959-'66 and 1973-'74). The same rows also show that both union $\dot{W}_u$ and nonunion $\dot{W}_{nu}$ current increases reflect the state of the economy, but that the nonunion increases reflect a greater sensitivity.

2. The size of the variation in $\dot{W}_u$ and $\dot{W}_{nu}$ increases when the fact shown in row I.b) that a bigger percentage of nonunion than union workers received no increases is taken into consideration. The Bureau of Labor Statistics assumes that when nonunion workers receive no increases, this is a decision to that effect. Row I.c) shows that it is unusual for union negotiations to have a "no increase" result, whereas a very large percentage of nonunion workers in usual circumstances (some slack in the economy and prices rising very slowly, such as 1959-'64) receive no increase.

3. Row II.b) contains what are probably the best net figures showing the changes in union

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[8] For references in this and the following sections see C. Glyn Williams, **Labor Economics** (New York: John Wiley & Sons, Inc., 1970), pp. 305-6.

TABLE. **Annual Changes in Union and Nonunion Wages, 1959-'77**

															Production Workers in Manufacturing				
I. Current Wage Changes 1959-'77	1959	'60	'61	'62	'63	'64	'65	'66	'67	'68	'69	'70	'71	'72	'73	'74	'75	'76	'77
a) Median Increases — Annual Percentage Change (wage increases resulting from current settlements or decisions)																			
All union	3.7%	3.5	2.5	2.9	2.9	2.5	3.6	4.1	5.5	6.5	6.9	7.4	8.4	5.5	5.8	7.6	8.6	8.3	8.3
Nonunion	4.4%	3.8	3.4	3.2	3.6	3.2	4.0	4.4	5.0	5.0	6.0	5.8	5.5	5.1	6.0	8.6	6.9	7.0	7.0
b) Median Adjustments — Actual Percentage Change (wage adjustments including decisions for no change)																			
All union	3.4%	3.4	2.5	2.5	2.6	2.3	3.4	4.0	5.5	6.4	6.9	7.3	8.2	5.5	5.7	7.5	8.6	8.3	8.3
Nonunion	3.2%	2.2	1.2	1.6	2.8	2.0	3.2	3.7	4.4	5.0	5.1	5.0	4.7	5.0	5.5	8.0	6.0	6.5	6.5
c) Workers Receiving Increases As Percentage of Workers Subject to Wage Decision																			
All union	93.7%	93.1	89.5	74.4	77.3	89.3	92.5	96.1	98.4	99.3	98.9	98.1	98.3	97.8	98.7	98.3	98.6	99.2	96.9
Nonunion	66.5%	56.8	52.8	53.2	69.2	55.5	75.3	77.3	80.8	87.0	75.8	76.7	69.6	82.9	89.8	87.4	82.3	86.4	84.6
															Production Workers in Manufacturing				
II. Effective Wage Changes 1959-'77																			
a) Median Increases — Annual Percentage Change (wage changes including current increases, deferred increases, and COLAs)																			
All union	3.6%	3.6	3.0	3.0	3.0	2.6	3.2	3.8	3.9	5.1	5.0	5.9	6.2	5.4	6.3	8.1	8.4	7.8	8.0
Nonunion	4.3%	3.8	3.3	3.2	3.7	3.2	4.0	4.5	4.8	5.0	6.0	5.9	5.5	5.2	6.0	8.7	6.9	7.0	7.1
b) Median Adjustments — Actual Percentage Change (wage changes including decisions for no change)																			
All union	3.4%	3.4	2.7	2.6	2.6	2.2	2.9	3.2	4.0	5.0	5.0	5.7	6.1	5.2	6.2	8.0	8.2	7.7	8.0
Nonunion	3.3%	2.5	1.0	1.6	2.8	2.0	3.2	3.9	4.6	5.0	5.1	5.1	4.7	5.0	5.6	8.0	6.3	6.5	6.5

Sources: U.S., Congress, M. Estey, "Union and Nonunion Wage Changes 1959-1972" in **Price and Wage Control: An Evaluation of Current Policies, Hearings before the Joint Economic Committee.** 92d Cong., 2d sess., 1972, pp. 323-31.
U.S., Department of Labor, Bureau of Labor Statistics, **Current Wage Developments,** August 1978, p. 48, Tables 1, 2, and 3.

and nonunion wages over the years 1959-'77. These include current increases (also, no change), deferred increases, and cost-of-living adjustments distributed over the 12-month period. (The variation between $\dot{W}_u$ and $\dot{W}_{nu}$ in each year is certainly not great.) It could even be suggested that this difference is a measure of the differential productivity increase between union firms and nonunion firms arising from the fact that union firms are likely to be bigger, more capital intensive, and more susceptible to technological improvement than nonunion firms.

The data in II.b) also show that $\dot{W}_u$ and $\dot{W}_{nu}$ were substantially bigger in the 1970's than in the early 1960's. Is this because unions are more powerful in this later period and are achieving bigger increases in the union sector which then spill over into the nonunion sector? That is very unlikely. Few observers would say that American unions are more powerful today than 20 years ago. Labor's record in Congress and in representation elections in the field clearly show that labor's power is not increasing.

ARE THERE STRONG UNIONS?

Again, the whole story has not been presented. Point-in-time studies have been discussed and the conclusion drawn that there are strong unions (in a static sense), and weak unions. Time-series data have been reviewed which show that, in the aggregate, union wages do not change substantially differently from nonunion wages.

Some indication that the aggregate approach does not tell it all, however, is clear from the following statement by the Council on Wage and Price Stability in 1978:

> An examination of the wage rates of various subgroups of workers indicates that significant changes have occurred in the wage structure of American industry. For example, steelworkers' hourly earnings were about 35 percent above the private nonfarm average in 1967, but were about 65 percent above the average in 1977. A similar rise in relative wages is evident in other basic industries. On the other hand, wages for workers in the apparel and other textile industries were 24 percent below the private nonfarm average in 1967, and about 31 percent below the average in 1977. At the beginning of the last recession in 1973, wages in contract construction were significantly above those in coal mining and steel, but in 1977 the average construction wage was below that of coal miners and steelworkers. The change in relative positions of construction workers resulted largely from the severe impact of the competition from nonunion contractors.[9]

This quotation reveals that even strong unions are not able to insulate themselves entirely from the market, that unions that have been kept weak by adverse market conditions gain strength as the market improves (coal, for example), and that some unions are able to insulate themselves from the effects of rising prices.

These observations find some support in the statement by Barry Bosworth, Director of the U.S. Council on Wage and Price Stability.

> In the wage area, I don't see how we can moderate the rate of wage increase without dealing with the split that has developed between the very large wage increases of the major unions in the industrial core of the economy and those of the rest of the economy. The contracts of the largest industrial unions lead them to expect wage and benefit increases of nearly 10 percent a year, while the rest of the economy receives 7-8 percent a year. Our greatest difficulty now is to find a way to deal with the relative wage issue.[10] I want to make that point as strongly as I can. The major difference on the labor side is **not** between union and nonunion plants. It is between the unions of the large enterprises of the central industrial core and the rest. In the wage behavior of these large unions, there is no evidence that unemployment influences their wage rates. There is no evidence that they moderate their demands during a recession. They have insulated themselves against the cost of inflation, and they have insulated themselves against the cost of unemployment. They follow a life of their own depending upon cost-of-living price increases plus an annual "productivity" increment.[11]

Further, it has to be a young, self-confident nonpolitician who would make the following observation:

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[9] Executive Office of the President, **A Quarterly Report of the Council on Wage and Price Stability, with a Special Report on Inflation**, Report #13, April 1978, 40.

[10] **A Conversation with the Honorable Barry Bosworth: Coping with Inflation** (Washington, DC: American Enterprise Institute, 1978), p. 9.

[11] Ibid., p. 10.

Dr. Bosworth: I'm not too sure. I don't want to go so far as to say that labor unions have outlived their usefulness, because I don't think that's true. But the fundamental problems to which they were a response have largely disappeared. Even if we had no unions, the social attitude of the nineteenth century would not return. Times have changed. The extreme exploitation of highly unorganized labor by a dominant employer, I believe, has passed.[12]

CONCLUSION

If the future is viewed entirely on the basis of the comments made here, it may appear somewhat pessimistic. It has been shown in this article, first of all, that inflation is not a simple phenomenon. It is complex in the sense that it can be caused by one or several of many factors. Its control is complex because it, too, is many-faceted. New institutions and procedures may be called for, and the details of these may not at first be obvious. Beyond that, there has to be a willingness to accept the rulings and outcomes of any new institutions and procedures.

Second, this article has shown anew that inflation distributes burdens unequally. New changes are being imposed on society by OPEC foreigners and their domestic energy counterparts by the producers of scarce raw materials and primary products at home and abroad, and by providers of services such as hospital and medical care where the suppliers can virtually dictate demand. There is, then, something inherently unfair about the process of self-protection on which society depends. If certain groups can insulate themselves from such cost-of-living increases, then that is so much more to be carried by those who have no such insulating techniques or mechanisms.

There is thus an urgency about reforming monetary and fiscal policies to perform the task of promoting economic stability, and for developing a case-by-case approach to the sectors that are causing especial concern. It certainly does not seem to make sense that steelworkers are earning nearly $2,500 a year more than they would be if their relation to the average private nonfarm wage had stayed at its 1967 level, particularly at a time when steel plants are allegedly closing because of high labor costs. It is also strange that such is the case when those who are able to keep their jobs are protected by trigger pricing for import control. In this area, and probably others, like construction where the Davis-Bacon Act can be repealed, society can surely demand compliance with guidelines. Farm price supports, production quotas, and soil bank programs have similarly lost their social meaning.

An interesting proposal is that recently made by Mrs. Thatcher to the effect that the consumer price index should be revised to exclude fuel price increases. More generally, an index should be constructed that would exclude price increases resulting from rises in import prices. As noted above, certain groups are partially or totally insulated from disadvantageous changes in the terms of foreign trade. These groups include not only the strong union sectors but also privileged groups like Federal retirees. To the extent that they are protected by cost-of-living clauses, their share of this external levy has to be borne by the less fortunate groups. This would go a significant way toward meeting the problem posed by the differential ability of groups to find automatic protection from inflation.

Unions do not cause inflation, but in inflationary times, some privileged groups can worsen conditions. If, then, the instruments of general control are clumsy, alternates must be found, and rationally designed mandatory controls would seem to be quite in order. With adequate publicity, they would find support even among those unions that lack the clout to keep pace with accelerating inflation.

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[12] Ibid., p. 16.

The Employer and Employment Laws

By James J. Baldwin, LL.D.

The Employer and Employment Laws is a regular feature. Suggestions and inquiries by readers are invited.

UNION ACTIVITY AND THE EROSION OF EMPLOYERS' PRIVATE PROPERTY RIGHTS

Prior to the passage of the National Labor Relations Act (Act) in 1935, employers enjoyed the same rights to govern the ultimate use and access to their "company property" as other property owners. Persons who engaged in unwanted activities on the employer's premises, including union activity, could be arrested and prosecuted as trespassers under state and local laws. Since 1935, however, employers have suffered a steady erosion of their private property rights in the name of protecting employee rights to engage in union activity on "company property."

Section 7 of the Act gave employees the right to form, join, or assist labor organizations, and to bargain collectively with their employer. An employer's interference with the exercise of these rights is an unfair labor practice. With the blessings of the National Labor Relations Board (Board), unions have used these employee rights as an excuse for demanding access to the employer's premises to distribute union literature and to solicit union members.

Initially, the Federal courts issued conflicting opinions on what right, if any, the Federal labor laws gave employees and union organizers to engage in organizing activity on an employer's premises. One court ruled that requiring employers to permit such activity on their property constituted unlawful confiscation of their private property rights.[1] The United States Supreme Court squarely addressed the issue for the first time in the famous **Babcock & Wilcox Co.** case.[2] That case involved **non**employee union organizers who demanded, but were refused, access to company-owned parking lots to distribute union literature. The Board dismissed the employer's claim that it could legitimately prevent such a trespass on its private property by persons who were not its employees. The Supreme Court rejected the Board's decision and established a doctrine of "accommodation" to resolve the conflicts between the employer's private property rights and employee rights under Federal labor law. Under this doctrine, the employer is required to permit outside union organizers onto its property only if there are no alternate channels to communicate with the employees. Typically, access to the employer's property by nonemployees for union organizing purposes has been required only in isolated lumber camps and company-owned mill towns where the employees work and live on the employer's property.

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Although Babcock & Wilcox Co. won its case before the Supreme Court, the decision applied to **non**employees. While **non**employees are now normally restricted from coming onto an employer's property to organize for a union, any restrictions on organizing activities by **employees** on the employer's premises must be justified by business considerations. Union solicitation by employees during "working time" and distribution of union literature by employees in "work areas" on an employer's premises can usually be prohibited because these activities interfere with work. However, the Board will find illegal any employer restrictions over and above these

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[1] See **N.L.R.B. v. Stowe Spinning Co.**, 165 F.2d 609 (4th Cir. 1947).

[2] **N.L.R.B. v. Babcock & Wilcox Co.**, 351 U.S. 105 (1956).

"working time" and "working area" limitations on such activity unless the employer can prove that such restrictions are necessary from a business standpoint, e.g., to prevent interference with production or to maintain discipline. Because the employees of retail establishments have direct contact with business customers, in the past the Board has allowed such employers to prohibit all organizational activity in its "work areas" at all times.

In a recent case involving a Florida newspaper publisher, the Board granted the company's employees the right to solicit for union members even in a retail "work area."[3] The solicitation was conducted by the company's employees in the lobby of the newspaper office building, a place where the general public places its newspaper advertisements and where employees engage in other work activities that require direct contact with business customers. Although the lobby is a "work area," the Board held that solicitation in this area could not be restrained. The Board justified its decision on the grounds that "only a minor amount of business is transacted in the lobby" and, therefore, solicitation in this area would not interfere with the newspaper's "primary business operations." This decision indicates that the Board is beginning to limit its prior rulings that organizational activity in an employee's retail "work areas" can be prohibited at all times.

In a series of cases involving private hospitals, the Board has ruled that hospital restrictions on solicitation by employees are valid only if such restrictions are confined to strictly "patient-care areas."[4] Restrictions on solicitation in areas where patients come in contact with the general public, such as cafeterias and waiting rooms, are unlawful because they are not justified by legitimate concerns for the patients. The Supreme Court endorsed the Board's decision on this point holding that the Board, and not the courts, is best suited to strike the proper balance between the employees' rights under Federal labor laws and the health care needs of hospital patients.[5]

The Board's continued assault on the employers' private property rights is most vividly demonstrated in cases involving "off duty" employees. Many employers have rules that prevent employees from remaining on, or returning to, company property after their scheduled work periods. Under some state laws, an off-duty employee who violates such a rule is a trespasser. The Board has rejected employers' claims that off-duty employees have no legitimate right to remain on company property after work hours, and has ruled that such employees must be allowed access to outside nonworking areas such as plant parking lots to engage in union activities, including distribution of literature.[6] One Federal court has already accepted the Board's off-duty employee rule noting that the Board has the expertise to strike the proper balance between employee rights and the employer's private property rights.[7] The abdication by the Federal courts to the Board on these important cases is especially disturbing since this allows the Board to decide that employee rights to engage in union activity are, in far too many situations, paramount to the employer's private property rights.

At first, the Supreme Court's doctrine of "accommodation" established in the **Babcock & Wilcox Co.** case appeared to be a total victory for employers. By striking the balance in favor of private property rights, that case clearly established, absent special circumstances, that nonemployee union organizers can be denied access to company-owned property. As indicated by subsequent decisions, however, the Board can easily manipulate the "accommodation" doctrine to erode further the employer's private property rights. For example, in a recent case involving a retail grocery store located in a shopping center, the Board had to balance property rights with the rights of nonemployee union pickets who initially conducted their protest on shopping center property.[8]

The pickets were told to leave the shopping center grounds, and a state court injunction was obtained requiring the union pickets to conduct their protest at the shopping center entrances and exits, outside the property line. Restricting the pickets to engage in their protected activity at the shopping center entrances and exits, the Board maintained, might result in the public mistaking another establishment in the shopping center as the target of the union protest. Weighing this and other factors, the Board determined that the private property interests were outweighed by the need of effective communication of the pickets' message to the employer's patrons. Thus, the pickets were allowed access to the sidewalks directly in front of the employer's retail store, on private property. This case demonstrates how little the Board actually requires to justify an "accommodation" that results in the destruction of the employer's private property rights.

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[3] **Times Publishing Co.**, 240 N.L.R.B. No. 157 (1979).

[4] See, e.g., **Presbyterian Medical Center**, 227 N.L.R.B. No. 135 (1977); **St. John's Hospital and School of Nursing, Inc.**, 222 N.L.R.B. No. 182 (1976); **Baylor University Medical Center**, 225 N.L.R.B. No. 102 (1976).

[5] **Beth Israel Hospital v. N.L.R.B.**, ____ U.S. ____, 98 L.R.R.M. 2727 (1978).

[6] **Tri-County Medical Center**, 222 N.L.R.B. No. 174 (1976).

[7] **N.L.R.B. v. Presbyterian Medical Center**, 586 F.2d 165 (10th Cir. 1978).

[8] **Giant Food Markets**, 241 N.L.R.B. No. 105 (1979).

Another serious blow to employers' private property rights was delivered by the Second Circuit Court of Appeals in a case concerning J.P. Stevens & Co.[9] Because of what the Board claimed were pervasive violations of employees' rights under the National Labor Relations Act in the company's North Carolina and South Carolina plants, the Court entered a sweeping order requiring the company to open its doors to nonemployee union organizers for a period of two years. Nonemployee union representatives are allowed free access to all canteens, rest, and nonwork areas, including parking lots, at each company plant in North Carolina and South Carolina for union organizing purposes. The union is also granted free access to company bulletin boards. Further, union representatives are given equal time and opportunity at company expense to address employees on company property on the subject of union representation each time a company official or agent addresses the employees on this subject. This drastic order was imposed upon the company, apparently without sufficient consideration of the company's interests in maintaining control over its own property.

The balance struck by the Board in the important area of employer private property rights versus employee rights under Federal labor laws is unmistakably clear. The Board has clearly tipped the scales in favor of union activities by employees and nonemployees, and has ignored the legitimate property interests of employers. The Federal courts continue to abdicate their responsibility to resolve the competing claims of employers and employees in the "accommodation" cases by deferring to the Board's expertise. If this trend continues, we can expect the private property rights of employers to be eroded systematically in the Board's over zealous effort to provide employees and nonemployees with more and more opportunities to engage in union activity on the employer's private property.

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[9] **N.L.R.B. v. J.P. Stevens & Co.**, 96 L.R.R.M. 2748 (2d Cir. 1977).

Bottom Lines

By James B. Edwards, Ph.D., C.P.A., C.M.A., C.I.A., C.D.P.

Bottom Lines is a regular feature that brings attention to practical business taxes and accounting. Suggestions and inquiries by readers are invited.

FEDERAL TAX LINES

The 95th Congress enacted a number of tax laws which could be of importance to many South Carolinians. Some of the more significant ones are discussed below.

LINE ONE

Commercial Transportation on Inland Waterways Taxed

Public Law 95-502 imposes a tax on fuel consumed in any vessel used for commercial transportation of property on inland or intracoastal waterways in the U.S. at a rate of 4 cents per gallon, beginning October 1, 1980. The tax rate will jump to 6 cents per gallon after September 30, 1981; to 8 cents per gallon after September 30, 1983; and to 10 cents per gallon after September 30, 1985. Vessels designed

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for use on the high seas with a draft of more than 12 feet, or any vessel used primarily for transporting people, will be exempted.

Taxpayers are required to file returns showing the amount of tax due on a calendar quarterly basis. Each return must be filed by the last day of the first month following the reportable quarter.

LINE TWO
Cropdusters Given Fuel Excise Tax Break

Public Law 95-458 permits cropdusters who use excise tax-paid fuel for farming purposes to claim a refund of credit of the fuel excises, if the farmer for whom the cropduster works waives such right to the refund or credit. Suggestion: Cropdusters planning to take advantage of this right should obtain documented evidence of the farmer's waiver first.

LINE THREE
Taxicabs Also Given Fuel Excise Tax Break

Public Law 95-599 provides for a refund for qualified taxicabs, during 1979 and 1980, of the 4 cents per gallon excise tax on fuel. The cab must be operated by a properly licensed person, and must be used to provide land transportation at a fixed fare for fewer than 10 adult nonscheduled passengers. The cab must not be prohibited (for any reason) from being used for ride sharing. A 1978 or later model taxi acquired after 1978 must meet the fuel economy standards of the Motor Vehicle Information and Cost Savings Act (mileage standards set by the EPA).

A refund claim may be filed for any quarter in which the refund due is at least $50 for that quarter. Otherwise, the amount of taxes paid must be claimed as a credit against income tax liability at year end.

ACCOUNTING LINES

Professional audit examinations of financial statements are based on tests rather than comprehensive reviews of all transactions. As a result, shortages and irregularities occurring in transactions not subject to these tests would not be disclosed. It must be recognized that clever and ingenious employees can devise varying methods, and combinations of methods, to conceal fraud, even when professional audits are used. On occasion, this column will be used to emphasize some of the practical considerations responsible business managers should be aware of regarding this important, but often overlooked, area. In this issue, a partial checklist of shortages is included. Each of these has been discovered in actual practice.

LINE ONE
Petty Cash

1. Overstating totals of supporting documents (vouchers) in petty cash disbursements.
2. Increasing the amount of supporting documents after payment but before replenishment from general funds.
3. Making two bookkeeping entries for the same supporting documents — one in petty cash and one in regular cash.
4. Using documentation once properly reimbursed to support a second reimbursement.
5. Falsifying documentation for expenditures — postage, supplies, etc.
6. Including checks (personal or unissued company) in cash on hand with no intention of depositing such in the bank.

LINE TWO
Cash Receipts

1. Lapping, i.e., delaying proper credit for receipts.
2. Not recording waste and scrap sales.
3. Understating totals of cash receipts records.
4. Increasing the discount column in the cash receipts record and making a corresponding decrease in the cash received column.
5. Withholding receipts of cash sales or portions thereof.
6. Withholding receipts from sale of merchandise repossessed.
7. Withholding receipts from securities — dividends, interest, etc.
8. Withholding refunds of overpayment of vendors' accounts.
9. Substituting charge sale tickets in fictitious names for cash sales.
10. Extracting cash and charging it to customers' accounts.
11. Withholding receipts on unrecorded claims.
12. Entering scrap sales weights short, remitting cash for entered weights only.
13. Charging off paid portions of customers' accounts while withholding receipts.
14. Cashing checks made payable to the company.
15. Withholding rental receipts, especially where such rentals are not a regular activity.
16. Withholding recoveries on accounts previously written off as uncollectible.
17. Withholding returns of deposits.
18. Substituting credit memos for sales returns,

discounts, or purchase allowances to cover shortages.

LINE THREE

Check Disbursements

1. Falsely documenting invoices in support of payments.
2. Using documentation once properly employed to support remittance to support subsequent disbursements.
3. Inserting different payee on check than on supporting documentation.
4. Increasing the amount of a check after signing, in collusion with the payee.
5. Kiting cash balances, i.e., transferring funds from one company cash account to another, either bank or cash on hand, and recording the deposit in the second account prior to the close of the period, while not recording the withdrawal from the first account until after the close of the period.
6. Overstating totals of legitimate disbursements to cover unrecorded disbursements or withheld cash receipts.
7. Increasing the amount on a cancelled check to agree with the recorded amount.
8. Destroying forged checks when returned as cancelled checks.
9. Making unrecorded deposits, then drawing unrecorded checks and destroying them when cancelled, i.e., "off the record accounting."
10. Improperly using checks signed in blank.
11. Charging checks drawn in payment of personal expenses to business expense — watch the utility expenses on this one.
12. Manipulating adding machine tapes to serve as supporting evidence of cash disbursement. It's easy to enter the proper amounts on the tape, roll the tape down, add the amount of the shortage, then return the tape to the previous position for printing the total.
13. Listing customers' overpayments or credit as having been paid out of cash on hand.
14. Paying vendors' invoices with cashiers' checks or money orders purchased with company checks drawn for more than the invoices.
15. Not returning duplicate payments or overpayments received from customers.
16. Withholding undelivered checks and later cashing them.
17. Creating a fictitious vendor and making disbursements thereto.

LINE FOUR

Payroll

1. Reimbursing the payroll cash account for amounts greater than the total payroll.
2. Padding payrolls, i.e., listing fictitious names or those of former employees.
3. Not deducting absent time of employees in computing the total payroll and collecting the excess pay.
4. Increasing rate of hours for specific employee collusion with employees.
5. Falsifying payroll totals.
6. Fictitious casual labor.
7. Duplicating payments.
8. Issuing multiple time cards.
9. Reimbursing payroll advances charged to accrued payroll.
10. Holding out amounts refunded for overpayments.

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Much more to come in the future . . . some practical matters will be explored in depth . . . others will merely be identified . . . please share your ideas, questions, answers, etc. — just send them to Dr. James B. Edwards, College of Business Administration, The University of South Carolina, Columbia, South Carolina 29208.

How the USC College of Business Administration Helps Find the Right Person for the Right Job

By James W. Emens

USC BA's Director of Placement, James W. Emens, answers some questions about the activities of that service.

INTRODUCTION

The College of Business Administration at The University of South Carolina has always been interested in the placement of its graduates, and has offered every assistance in bringing prospective employers and candidates together. Its early efforts, however, were unofficial and informal. Members of the administration and the faculty used their "contacts" in the business community and their knowledge of the job market to help place graduating students.

In 1976, this policy of unofficial assistance and encouragement changed, and the real push in the area of placement began. By 1977, full-time personnel had been assigned to the activity, and today BA's Placement Office staff are kept busy arranging interviews for students and alumni with an ever increasing number of organizations. It is the purpose of this article to explain how this placement service helps companies, government agencies, and institutions select and employ suitable job candidates.

QUESTIONS AND ANSWERS

Q. Why has a Placement Office evolved in the College of Business Administration?

A. The rapid growth of the BA student body has increased the need for making more organizations aware of the availability of graduates looking for employment. Currently, there are over 3,400 undergraduate students and nearly 1,000 graduate students enrolled in the College of Business Administration at USC. Applications and acceptances for graduate study have increased considerably over last year, and the number of applicants and/or transfer students at the undergraduate level is also higher by 28 percent. Approximately 165 organizations recruited at USC this past academic year, but only 60 percent were looking for BA students. Therefore, we feel that we should take steps to increase specialized recruiting activity. We also believe that by making direct contacts with the business community in South Carolina and neighboring states we will be better able to serve them in their search for qualified job candidates.

Q. What, exactly, does the BA Placement Office do? What services does it offer?

A. The staff of USC BA's Placement Office

1. Provide students with information regarding interviews: name of organization, interview date, desired major, location of interview.
2. Provide offices for the interviews.
3. Provide background information on most businesses interviewing in BA.
4. Maintain bulletin boards showing current job openings.
5. Maintain employers' names and addresses for students desiring to make individual contacts.
6. Render individual assistance to students requesting information on placement procedures, job openings, preparation of resumes, etc.

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7. Maintain resume files of students actively seeking employment.
8. Forward resumes to firms requesting them for specific job openings but who do not come on campus to interview.
9. Provide speakers for BA organizations that wish their members to learn of Placement Office activities.
10. Provide services to alumni comparable to those available to on-campus students.
11. Send out questionnaires to recent graduates to determine their employment status and to secure related information.

Q. Are your services restricted to undergraduates and graduates of the College of Business Administration?

A. Yes, although on rare occasions recruiters interviewing in BA do see students from other departments on campus who have a concentration in the business area.

Q. How did you originally advise companies and other employers that your service was available? Are you still actively seeking visitations from other employers?

A. The USC Placement Office has been in existence for a number of years and has been in communication with many of the major firms in the country. As a satellite of that operation, our service has been able to take advantage of those contacts. In addition, administrators associated with the Masters in International Business Program (MIBS) in BA have been in touch with organizations specifically moving in the international scene. We have also contacted over 500 firms in South Carolina, by letter, to let them know that we are gradually building up a file of resumes of persons actively seeking employment in business. When one of these companies informs us of an opening for someone with a business background, we are pleased to furnish for their review the resumes of those persons who meet the criteria requested.

Q. How many employers are currently taking advantage of your placement service, and where are they from?

A. About 100 recruiters come from here each year looking for business graduates. These representatives are primarily from the Southeast, but frequently they represent firms that are national or international in scope.

Q. How would you classify these participating employers (industrial, service companies, institutions, government agencies, etc.)?

A. The bulk of the recruiters represent industrial firms. Some service companies, primarily life insurance, also recruit regularly. Relatively few institutions and government agencies, however, are represented. The state agencies that have recruited here so far include the State Auditor's Office, the State Tax Commission, the Department of Social Services, and the Department of Mental Retardation. The U.S. Comptroller of the Currency sends us a representative regularly, and recently we have been notified of openings for positions with one county and several school districts. The total number of persons hired by these agencies to date, however, has been small.

Q. What are the usual hiring interests of the recruiters?

A. Persons with accounting backgrounds are in greatest demand, but other popular fields are finance, management science, and management.

Q. Do employers frequently limit the students they will interview to those with specific qualifications?

A. Yes, and that is something we encourage since it saves time for both the student and the interviewer. The service industry seems to have more firms that say they will interview "any interested major." A few employers try to broaden their appeal by stating they will interview "any major interested in production."

Q. If you were to advise an employer on how his interviewer could get the best results from this service, what would you tell him?

A. First, the employer should spend time determining what qualities, characteristics, and capabilities really are required to perform the job for which the student will be interviewed. Then, he should set the criteria that will ensure the satisfaction of these requirements, and select the interviewer with care. The employing firm should also avoid such attitudes as "it is our national policy not to consider any person with less than a 2.8 grade point ratio," or "we interview only those students with a gpr above 3.5," or "applicants will be considered only if they are at least 26 years old and married." These restrictions prevent the consideration and hiring of persons who can accomplish the work satisfactorily.

Q. What can a graduating senior in Business Administration expect to earn?

A. This depends on the student's area of concentration, as well as a number of other factors. This year, the ranges seem to be about as follows: accounting, $9,000 to $17,000; economics, finance, management, and marketing, $9,000 to $15,000; management science, $10,000 to $18,000. We have had so little experience with insurance and office management that it is difficult to make estimates for these.

Q. What about the earnings of a student who has just received a Master's Degree or MBA?

A. Generally speaking, the above figures can be raised by about $2,000 for those persons with a Master's Degree or M.B.A. However, exceptions have been made to all of these quoted figures.

Q. Do many Ph.D.'s take advantage of this service?

A. No. Since most of them pursue teaching careers, they receive specialized help from their Academic Program Directors and other faculty.

Q. When an employer hires a student as a result of an interview arranged through the BA Placement Office, are you informed?

A. Not often, but this is something we hope to change. Some employers do post us as to their offers and we are encouraging more to do so. This office has also sent out a questionnaire to recent alumni soliciting information on this subject.

Q. Approximately how many placements do you estimate this service makes in a school year, and do you keep track of students after they have been placed with an employer?

A. For the school year just completed, 435 BA students signed up for interviews through both placement services and were involved in 1,320 interviews. Using historical figures, this should result in about 300 job offers, but not necessarily to the same number of students. We do not know the actual number of placements accomplished through the use of this service. However, working with the BA Alumni Office in comparing individual business addresses with records of interviews should give a fair idea of the placement success of our interviewees. This follow-up program will require several months to develop.

Q. What can prospective employers, not currently using your placement service, do to become involved?

A. Simply call the BA Placement Office at 777-6862.

The Bankers Trust Management Associate Program

By Jeanette M. Bergeron

EDITOR'S NOTE. The role of colleges and universities in educating individuals for positions of leadership is relatively well known. Sometimes overlooked, however, are the internal programs of businesses and other organizations to continue the educational process for their employees. Beginning with this issue of the Business and Economic Review, we will run a series of articles designed to give a familiarity with the recruitment and training programs in the various types of industries, i.e., banking, textiles, the electrical industry, etc. This first offering, describing the management training program at Bankers Trust of South Carolina, is intended to serve as a typical picture of bank training programs in South Carolina. We are specifically interested in such topics as productivity, absentee control, discipline, cost control, quality control, scrap reduction, etc. If you have programs on these topics you would like others to know about, please contact us so we can arrange to have a representative talk with you about possible articles on them.

There's always a lot of talk about recruitment on college campuses — usually with top athletes signing lucrative professional contracts. Yet, another sort of recruitment takes place on a quieter scale, minus the fanfare and fuss. It's the recruitment of bright-minded, talented students for junior management positions with corporations.

Applicants of top caliber seldom just appear in the personnel office of a company to begin their climb up the corporate ladder. Competition for their talents is keen, and companies have discovered the value of recruiting early during college semesters.

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Attracting good candidates is just half the personnel dilemma, however. Once new recruits are on board, their talents have to be tapped, encouraged, and meshed into the corporation's overall management team.

In the early 1970's, Bankers Trust of South Carolina began a formal recruitment program to scout and train its next generation of management. Called the Management Associate program, it has already successfully attracted top candidates to the bank and is in a position to play an even more vigorous role in the future.

HIGH MANAGEMENT RATIO

Compared with many types of corporations, a statewide bank is set up with an unusually high proportion of management to nonmanagement staff. In branch management, for example, Bankers Trust has nearly 100 offices, most requiring at least 1 management member (called an "officer" in bank terminology) with the authority to make loans and to handle innumerable other decisions right on the spot. Various specialty services such as trust, investment, and international are almost solidly made up of management because of the background needed to handle their responsibilities.

Nearly all bank management — from top to bottom — is on the front line, in daily contact with customers and prospects. Such a large management team requires a major recruitment effort to fill new openings with capable, versatilely trained people.

BUILDING A DREAM

In its early days, as the Bank of Greenwood, Bankers Trust mainly served farmers, small businessmen, and families in the Savannah River Valley. But

Dewey Johnson, the bank's leader in the '40's and '50's, had a vision of a much larger bank, spanning the state. He recognized that the success of his dream hinged on building an exceptional management team.

Johnson personally recruited, and worked side by side with, many of the officers who, in later years, would guide the bank after his passing. He stressed certain attributes that became the cornerstone of the bank's management training. He particularly encouraged his officers to know their business thoroughly, to have a genuine feel for their community, and to spot opportunities in their own backyard.

In the early 1970's, Bankers Trust reached a level where it could meet the state's growth, stride for stride. It placed itself where the most people and the most dollars were. To catch up with competition, it put comparatively more capital into facilities and services, and geared for expansion by developing an innovative recruiting program.

PAYING PEOPLE TO LEARN BANKING

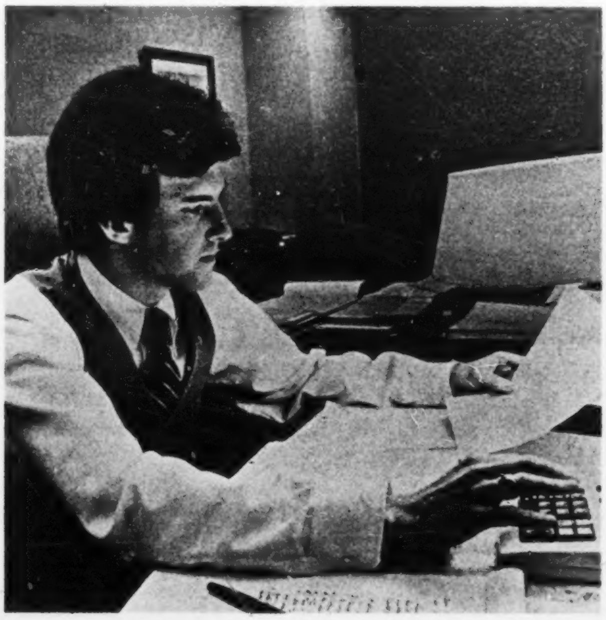
The Management Associate program at Bankers Trust works on the premise of paying participants a salary while they learn the skills of banking. The "students" are called "associates."

Bank management has a vested interest in the success of the program and its participants, as Tom G. Connor, Senior Vice-President and Director of the bank's personnel division, acknowledges:

> Management has a keen and selfish commitment to the program since its products will contribute to the future corporate growth of Bankers Trust. Graduates become a source of filling entry-level management positions throughout the state once they complete their training.

The Management Associate program picks up where academic preparation leaves off. It teaches the everyday operations of finance from the inside out. For large portions of the program, the associates are immersed in a bank office eight hours a day, five days a week.

Bank leadership has designated four specific goals for the program. First, since the bank is in the midst of a major, ongoing effort to expand its customer base, the training program heavily emphasizes techniques for attracting new consumer and commercial business. Second, it gives associates the know-how to provide better service to present customers, and thus to strengthen bonds with this important group. Third, the program furnishes the bank with an inventory of well-qualified management candidates for openings. Fourth, it is charged with being as effective and cost-efficient as possible. For this reason, progress of the associates is closely monitored and evaluated to be sure the program is on target with the bank's needs.



Bankers Trust Management Associate Scott Ziemke analyzes credit statements during an on-the-job assignment in the training program.

Management Associate Margie Seabrook studies the academic coursework for the trust services unit of the Bankers Trust training program.

SELLING THE PROGRAM

During the 1978-'79 academic year, the bank's inhouse recruitment team, headed by Lawrence E. McCray, Vice-President in personnel, visited 19 colleges and universities in and out of the state. The Bankers Trust approach to recruitment relies largely on personal contact and discussion with prospects. In June, the recruiters started using a specially designed, 12-page color brochure on the program. Much of their success to date, however, has been based on a personal, down-to-earth approach and on a strong interest in the program they're selling.

WHAT THE BANK LOOKS FOR

In scouting candidates who have the best chance to succeed in the bank, the recruitment team considers personal attributes as well as educational or career achievements. Experience has taught them certain things to look for when talking to an applicant at a college campus.

Recruits are required to have strong academic credentials, including a Bachelor's or Master's Degree, preferably with a concentration in finance, management, economics, accounting, or data processing. Their grade point averages should be 3.0 or higher, and they should show an adequate background in accounting or finance to perform basic analytical work. The recruiters also examine personal attributes just as closely.

As a business responsible for other people's money, banking calls for employees with exceptionally high levels of ethics and integrity. Management Associates are also required to be assertive, self-assured, and self-reliant. They need to exhibit high work standards and to show that they can perform well under stress.

Above all, they need to communicate well and to display a genuine concern for others — two qualities that allow them to meet and manage hundreds of customers each day. Everyone a banker comes in contact with is a potential customer, so associates need to develop and to use the expertise of a good salesperson.

It is the communications need that trips up many aspiring candidates. Recruiters report that the number of applicants with poor communications skills appears to grow each year. Many prospects are unable to express themselves well — either in interviews or in writing — and project a poor overall image. In order to assume a front-line banking position, they would not only have to project a successful personal image but a good image of the bank as well.

Roughly 1 out of every 50 applicants (or 1.6 percent) is eventually accepted and enrolled in the program. They receive technical instruction and practical experience in branch banking, commercial lending, and consumer lending. Their leadership and administrative skills are honed; their knowledge of bank products and services, broadened. To round off their management education before their first permanent assignment, they get a chance to work in other areas of the bank — just as interns rotate through different medical services in a hospital. Beyond these programs, advancement is determined by their abilities and ambitions.

ORIENTATION

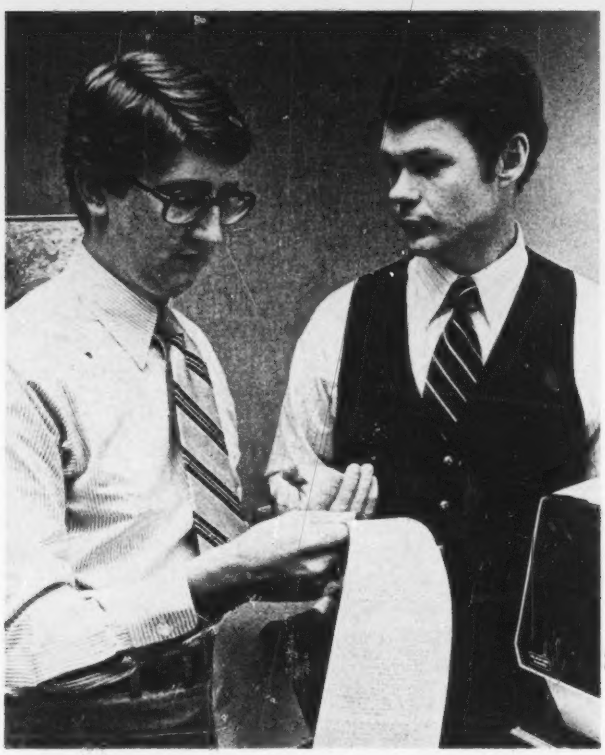
In the crucial introductory phase of management training, associates are oriented to the bank's philosophy, goals, and corporate set-up. For front-line experience with customers and banking procedures, associates go through an abbreviated teller training program at a selected branch. Here they develop an initial understanding of bank services, paper flow, and teller procedures. Later, they have special instruction in the techniques of loan collection and recovery. To gain familiarity with the mechanics of installment lending, credit scoring, and dealer financing, they work briefly in the installment loan department.

Associates are taught the lending skills to analyze credit situations and to make loan decisions. Working closely with officers in both consumer and commercial lending, they gain first-hand exposure to discussions and credit decisions that affect individual, as well as corporate, customers. Later, they use their new lending skills in a rotation through the credit department.

Throughout the program, associates attend periodic individual counseling sessions with the personnel staff. "We talk about what they're doing in their current assignment and examine what kind of banker they're developing into," says McCray. "Most importantly, we start looking for the work they're best suited for — what they would be happiest doing in their banking career. We're sensitive to the associate's special interests and talents."

BRANCH WORK

The second phase of training brings associates an assignment at a selected office for actual work in branch management operations, lending, and business development. Here they develop the supervisory techniques for handling a staff and managing a



Management Associate Joe Burns (left) receives instruction from staff member Charles E. Sloan, Vice-President and Trust Officer, in the investments area of the Trust Division.

branch. They receive instruction in personnel policies, procedures, and documentation. Their knowledge of customer services expands as they learn how to open and service all types of accounts relative to a branch.

Under the direction of the branch manager, associates refine the lending skills acquired in the introductory segment. In the important area of business development, they acquire techniques for attracting new business to the bank. Periodically, they leave the branch for training in other services, such as investment, trust, mortgage loan, audit, controller, bank operations, account services, data processing, bank card, items processing, and international, correspondent, and national banking.

Bankers Trust uses a series of learning units that carefully outline the instruction periods and identify objectives for associates to meet. Trainers for the units are bank professionals in the various services. As changes take place in bank organization, regulations, and services, the units are updated to be sure the instruction is as effective as possible. Trainees and instructors are also asked to evaluate the units.

The bank looks carefully at the skills being developed to see whether the training in each unit should be academic or on-the-job. Usually, there is a mix of both. This insures that skills are learned to the proper degree, and helps the bank to evaluate each associate's performance more accurately.

In the unit on lending skills, for example, associates go through a six-week academic course, followed by an on-the-job assignment in the credit division. The management of the division developed this approach after experience showed it would lead to the most balanced and comprehensive training. It takes the best advantage of fluctuations in the credit workload and makes better use of both the associate's and the staff's time.

Being an associate in these units allows a candidate's abilities to be visible to all levels of management. In turn, the guidance the associate receives from various managers gives a well-rounded bank education.

After this phase of training, the bank is able to evaluate the associate's performance and skills in depth. Meeting with the training staff, the associate decides whether to continue in the program and, if so, which area will be the focus for the remainder of training.

FINAL REFINEMENT

In the last phase of the program, associates are placed where they're most likely to work after training. If they have done well in branch work, for instance, and are selected for branch management, they are assigned to a branch office to refine their skills further. When a specific branch management position develops, they are qualified candidates to fill it. This applies to all areas where associates are placed for final refinement and development.

The associate's preference is taken into consideration on the permanent assignment. A recruit trained and desiring to work in a metropolitan area is not very likely to be sent to one of the bank's outlying offices. The bank successfully recruits large numbers of talented candidates locally to work in these offices. Once associates are into their careers, they have regular performance reviews to determine their potential for more responsibility.

INDIVIDUAL PACING

Most management candidates at Bankers Trust go through these three phases of training. The length and sequence of activities vary according to an associate's experience and abilities and the bank's needs. Usually, training lasts one year.

Associates enter the program year round. They move through it at their own pace, rather than with a class, spending less time on areas where they are already experienced.

Age is not a factor for admission to the program. Several associates have started second careers through the management program.

Recruits do not always come straight out of college or even from outside Bankers Trust. The management program has recruited candidates from other areas inside the bank, and it has attracted some people with good experience at other corporations who were not satisfied with where they were going. Recruits for some specialized support areas, such as audit, bank operations, controller, and data processing, receive a differently structured training program with heavy emphasis on the areas for which they've been recruited.

In addition to training and a competitive salary, associates are eligible for the usual benefits available to other bank employees. Bankers Trust also has a long-standing practice of promotion from within whenever possible.

SUCCESS OF TRAINEES

The investment the bank has made in its Management Associates has paid for itself many times over. Of the participants who completed the program in the last three years, 91.2 percent have remained with the bank and are working their way up in management.

Many associates recruited earlier in the 1970's now hold key positions in the Columbia corporate headquarters. Others are the bank's top officers in cities such as Hilton Head, Abbeville, Beaufort, and Myrtle Beach.

The banking industry is undergoing dramatic changes. As it stands on the edge of electronic banking, it's almost impossible for it to envision the world around the corner. But — that's the challenge facing the Management Associate program. By discovering and developing tomorrow's leadership, it will help Bankers Trust to be ready for that fast-changing landscape.

Intergovernmental and Tax Revenues in Local Governments of South Carolina

By Ronald M. Copeland, Robert W. Ingram, and Howard P. Sanders

Public attitudes toward government spending hardened during 1979 as the expenditure levels reached massive proportions, and the public perceived that such spending proposals could be financed only through increased taxation. Demands for fiscal conservatism have received such widespread popular support that Congress will be considering some form of "Proposition 13" type legislation this session. Real curbs on a number of Federal spending programs are very likely to occur.

One casualty of Federal cutbacks may very well be in Federal grant programs which transfer large amounts of revenues to states, counties, and municipalities throughout the United States. This article is intended to survey the relationship between intergovernmental transfers and taxes for local governmental units in South Carolina to assess that state's vulnerability to cutbacks. An historical summary of intergovernmental and tax revenues received by all local governments in the United States between 1973 and 1977 are presented, and the 1977 totals are classified by type of tax and recipient of transfers. Intergovernmental and tax revenues received by counties and municipalities in South Carolina during 1977 are contrasted with similar amounts in nine other

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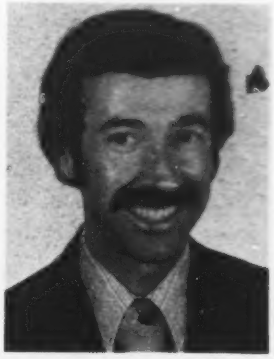

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TABLE 1. Historical Summary of Intergovernmental and Tax Revenues Received by Local Governments in U.S., 1973-'77 (billions of dollars)

Sources	1977	1976	1975	1974	1973	Growth Index Percentage[b]
Taxes	$45.9	$41.1	$37.2	$34.2	$32.5	141%
from State	$29.8	$28.2	$26.1	$22.4	$21.2	141%
from Federal	12.7	10.8	8.6	8.2	6.1	207
from Local	1.8	1.7	1.3	1.2	1.0	174
Intergovernmental Revenues[a]	$42.5	$39.0	$34.7	$30.6	$27.3	156%

Source: U.S., Department of Commerce, Bureau of the Census, **Taxes and Intergovernmental Revenues of Counties, Municipalities, and Townships: 1976-'77**, p. 5.

[a] Amounts exclude duplicative transactions between levels of government.

[b] An index of growth determined by dividing the 1977 line item amount by the 1973 amount.

Southeastern states, and the 1977 intergovernmental and tax revenues in South Carolina are described in detail.

In this article, local governments include counties and municipalities,[1] but the revenue dollar numbers reported exclude amounts received by school districts and special service districts. Taxes include property taxes, sales and gross receipts taxes on general and selective items, income taxes, licenses, and other forms of taxation, as applicable in specific taxing jurisdictions.[2] The totals for intergovernmental revenues exclude duplicative transfers between different segments of government and, therefore, the totals are smaller than the sum of the parts.[3]

HISTORICAL SUMMARY

Table 1 presents an historical summary of intergovernmental and tax revenues received by all local governments in the United States 1973-'77. The first five columns in Table 1 reflect taxes and transfers in terms of billions of dollars for each of the five years, 1973 through 1977. The first row of the table presents total tax revenues, while the remaining rows represent intergovernmental transfers from state governments, the Federal Government, and local governments. The last row summarizes the total of transfers from all governmental units. For example, taxes during 1977 amounted to $45.9 billion, while total intergovernmental transfers amounted to $42.5 billion. Thus, in 1977, local governmental units received almost as much revenue from intergovernmental transfers as from tax collections. In contrast, taxes and total intergovernmental transfers during 1973 only amounted to $32.5 billion and $27.3 billion, respectively. That is, the 1977 taxes were 141 percent of the comparable 1973 figure while the 1977 intergovernmental transfers represented 156 percent of the 1973 figure, as shown in the last column on the right. The largest growth in intergovernmental revenues was from Federal sources, measuring 207 percent during the 5-year period, while the smallest change, 141 percent, occurred in transfers from state governments. That is, the growth in Federal transfers to local governments during the five-year period far exceeded the growth in any other source of local government revenue.

Another way of viewing Table 1 is to consider intergovernmental transfers as a percentage of taxes. In 1973, total intergovernmental revenues equaled only 84 percent of tax revenues, and of this amount, revenues from the Federal Government represented only 19 percent. In contrast, total intergovernmental revenues in 1977 represented nearly 93 percent of total taxes, and the Federal contribution had increased to 28 percent. Intergovernmental transfers, particularly those from the Federal Government, have become increasingly important components in the financing of local government.

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[1] The word "municipality" will be used hereafter to describe both cities and townships.

[2] The intergovernmental and tax revenue data described in this article were obtained from the publication, **Taxes and Intergovernmental Revenues of Counties, Municipalities, and Townships: 1976-'77**, U.S. Department of Commerce, Bureau of the Census.

[3] For example, the 1977 total intergovernmental revenue figure of $42.5 billion does not equal the sum of $29.8 + $12.7 + $1.8 billion because duplicate transactions have been eliminated.

TABLE 2. Taxes and Intergovernmental Revenues Received by Counties and Municipalities in U.S., 1977 (billions of dollars)

Sources	Total	Counties	Municipalities
Taxes			
Property	$32.2	$12.9	$19.2
Sales	7.9	1.9	5.9
Income	3.6	.4	3.2
Other	2.2	.6	1.6
Total Taxes	$45.9	$15.9	$30.0
Transfers			
from State	$29.8	$14.1	$15.7
from Federal	12.7	3.7	8.9
from Local	1.8	.7	1.1
Total Transfers*	$42.5	$18.5	$25.8

Source: Same as Table 1, this article.

*Amounts exclude duplicative transactions between levels of local government.

RECEIPTS BY ALL COUNTIES AND MUNICIPALITIES

Table 2 presents details about intergovernmental and tax revenues received by local governments during 1977. Taxes are classified as property taxes, sales taxes, income taxes, and all other taxes. Intergovernmental transfers are identified as coming from state, Federal, and other local governments. Table 2 also classifies the recipient government into two categories: counties and municipalities.

Of the $32.2 billion generated by property taxes during 1977, $12.9 billion, or 40 percent, was received by counties. In contrast, only 25 percent of the sales taxes and 11 percent of the income taxes were received by counties, although they were the recipients of approximately 28 percent of other tax revenues that year. In total, counties received 35 percent of local government taxes. Counties received $14 billion of the $29.8 billion of intergovernmental transfers from state governments during 1977, or 47 percent of these transfers. In contrast, counties received only 29 percent of Federal transfers and 37 percent of other local transfers. Total county receipts from state, Federal, and local transfers amounted to $18.5 billion, or 43 percent of the $42.5 billion total of intergovernmental transfer revenues.

Municipalities throughout the United States received a much larger share than did the counties of all tax revenues, amounting to $30.0 billion of the total $45.9 billion. Municipalities also claimed the lion's share of transfers, i.e., $25.8 billion of the total $42.5 billion, with the bulk of these revenues coming from state governments. However, municipalities received a much larger share than counties of sales taxes, income taxes, and Federal transfers.

County Revenues for Southeastern States

The data in Table 3 contrast intergovernmental and tax revenues of South Carolina counties with those in 9 other Southeastern states and with the United States totals. The first column on the left contains the total amount of taxes, while column two contains the total amount of intergovernmental revenues, both in terms of millions of dollars. The remaining three columns subdivide the total intergovernmental revenue by source, i.e., state, Federal, and local units. The $86 million of total taxes collected by counties in South Carolina represents approximately one-half of 1 percent of the total taxes collected by all counties in the United States. The $123.9 million of intergovernmental transfers received by South Carolina counties represents approximately three-fourths of 1 percent of the total for the United States. County governments in South Carolina received less tax revenue and less total intergovernmental revenue than counties in eight of the other nine Southeastern states: only counties in West Virginia had lower intergovernmental and tax revenues.

Analysis of Table 3 is difficult, partly because of the scope of the numbers. One way to interpret these numbers is to specify each of the intergovernmental revenues, as well as the total intergovernmental revenue, as a percentage of total taxes. On this basis, total intergovernmental revenue for all counties in the United States represents 117 percent of total taxes, with less than 90 percent coming from state sources. In contrast, total intergovernmental revenue received by counties in South Carolina represents 143 percent of total taxes, with more than 90 percent of total taxes coming from state sources. Only North Carolina of the other Southeastern states reflected intergovernmental revenues received by counties at a higher percentage: intergovernmental revenue represents 247 percent of county tax revenue there, with 222 percent of total taxes coming from state sources. At the other extreme, counties in Georgia received total intergovernmental revenue at only 37 percent of total taxes with the bulk coming from the Federal Government and much of the remainder coming from the state government. The structure of county finances and tax

TABLE 3. Taxes and Intergovernmental Revenues Received by Counties in 10 Southeastern States and the United States, 1977 (millions of dollars)

Recipients	Total Taxes	Intergovernmental Revenues			
		Total	State	Federal	Local
United States	$15,885.3	$18,542.5	$14,135.9	$3,736.9	$669.8
South Carolina	86.6	123.9	79.1	43.8	1.0
Alabama	146.2	148.1	90.2	51.5	6.5
Florida	630.7	529.0	194.7	307.4	27.0
Georgia	416.5	152.1	69.0	79.0	4.0
Kentucky	104.[illegible]	127.6	62.5	57.2	7.8
Mississippi	100.2	142.6	96.9	45.4	.3
North Carolina	654.3	1,617.2	1,454.2	152.1	10.9
Tennessee	507.4	475.2	401.1	61.7	12.4
Virginia	745.2	727.9	561.3	139.7	26.9
West Virginia	43.1	41.2	18.2	22.0	1.0

Source: U.S., Department of Commerce, Bureau of the Census, **Taxes and Intergovernmental Revenues of Counties, Municipalities, and Townships: 1976-'77**, pp. 6-11.

intergovernmental revenues in Mississippi is quite similar to that in South Carolina. Counties in other Southeastern states receive less intergovernmental revenue as a percentage of county taxes on the whole than do counties in South Carolina.

Municipality Revenues for Southeastern States

Intergovernmental and tax revenues received by municipalities in South Carolina represent three-tenths of 1 percent of that received by municipalities throughout the United States (see Table 4).

TABLE 4. Taxes and Intergovernmental Revenues Received by Municipalities in 10 Southeastern States, 1977 (millions of dollars)

Recipients	Total Taxes	Intergovernmental Revenues			
		Total	State	Federal	Local
United States	$29,990.1	$25,760.6	$15,676.8	$8,943.7	$1,140.0
South Carolina	80.3	80.3	21.1	57.1	2.1
Alabama	243.5	164.0	37.1	108.2	18.7
Florida	585.6	500.5	221.9	251.9	26.7
Georgia	284.5	166.9	50.9	94.4	21.6
Kentucky	164.3	140.5	19.1	113.9	7.5
Mississippi	68.7	132.5	77.3	50.7	4.5
North Carolina	235.0	315.7	101.9	160.1	53.7
Tennessee	359.3	630.0	282.7	175.1	172.3
Virginia	663.8	688.6	448.7	228.4	11.4
West Virginia	67.7	49.1	5.8	42.0	1.3

Source: Same as Table 3, this article.

Taxes received by South Carolina municipalities are smaller than those received by similar governmental units in seven of the nine other Southeastern states, Mississippi and West Virginia being the exceptions. Total intergovernmental revenue received in South Carolina is smaller than that received in eight of the nine other Southeastern states: only West Virginia receives a smaller amount.

The sources of intergovernmental revenue, however, differ greatly among the municipalities of the ten Southeastern states. If the intergovernmental revenues are expressed as a percentage of total taxes, municipalities throughout the United States have intergovernmental revenues totalling 86 percent of taxes. Of this figure, 52 percent comes from state sources, generated locally. Municipalities in South Carolina have intergovernmental revenues equal to 100 percent of taxes, with 71 percent coming from Federal sources. Intergovernmental revenues received by municipalities in Mississippi, North Carolina, Tennessee, and Virginia are larger as a percentage of tax revenues than those received in South Carolina. On the other hand, those received by Alabama, Florida, Georgia, Kentucky, and West Virginia are smaller. Municipalities in Tennessee are unique in that intergovernmental revenues from local governmental units represent approximately 48 percent of municipal taxes.

Revenues in South Carolina

Table 5 presents details of intergovernmental and tax revenues in South Carolina for fiscal year ending 1977. Taxes are subdivided into three classes: property, sales gross revenue, and all other. Intergovernmental transfers from state government are subclassified into public welfare, general, highway, and other. Intergovernmental transfers from the Federal Government are subdivided into general revenue sharing, HUD, and other.

TABLE 5. Taxes and Intergovernmental Revenues Received in S.C., 1977 (millions of dollars)

Sources	Total	Counties	Municipalities
Taxes			
Property	$143.2	$82.1	$61.0
Sales/Gross Receipts	.5		.5
All Other	23.1	4.4	18.6
Total Taxes	$166.8	$86.6	$80.3
Intergovernmental Transfers			
from State			
Public Welfare	$ .4	$ .4	$ *
General Support	50.1	37.7	12.4
Highways	18.4	18.0	.4
Other	31.2	23.1	8.2
Total	$100.2	$ 79.1	$21.1
from Local		$ 1.0	$ 2.1
from Federal			
General Revenue Sharing	$ 60.9	$ 32.7	$28.1
HUD	6.8	1.1	5.7
Other	33.2	10.0	23.3
Total	$100.9	$ 43.8	$57.1
Total Transfers	$201.1	$123.9	$80.3

Source: U.S., Department of Commerce, Bureau of the Census, **Taxes and Intergovernmental Revenues of Counties, Municipalities, and Townships: 1976-'77**, pp. 10 and 11.

*Less than .1 million.

Property taxes represent the largest source of tax revenue for counties and municipalities in South Carolina, i.e., 95 percent for counties and 76 percent for municipalities. One-half of intergovernmental revenues received from the state by counties and municipalities in South Carolina are available for general purposes. Nearly 80 percent of total state transfers to local governmental units are designated to the counties. While intergovernmental transfers between local governmental units are revenues to the receiving units, they are also expenditures to the disbursing units and hence, no amount appears in the total column for intergovernmental transfers from local units because all amounts net out against one another. Intergovernmental transfers from the Federal Government to local governmental units in South Carolina during 1977 amounted to $101 billion: of this amount, 43 percent was designated for counties and 57 percent for municipalities. The single largest share of Federal transfers was derived from the general revenue sharing program which allocates funds primarily on the basis of population. Of these funds, 53 percent was allocated to the counties, while the remainder went to municipalities. Total intergovernmental transfers to counties and municipalities in South Carolina represented 120 percent of total taxes collected by those units. For counties, intergovernmental revenue represents 143 percent of taxes, i.e., intergovernmental revenues are a more important source of revenue for counties than are taxes.

SUMMARY AND CONCLUSIONS

Given a "new fiscal conservatism," the Federal Government may well cut back on programs that transfer large sums of money to local county and municipal governments. If such cutbacks do occur, how will counties and municipalities in South Carolina fare, relative to local governments in the nine other Southeastern states, or relative to the average local governments in the United States?

Nationwide, local governments have become almost as dependent on intergovernmental transfers as they have on tax revenue. Transfers from the Federal Government have grown rapidly during the past five years. Counties are slightly more dependent on intergovernmental transfers than on taxes, while municipalities are slightly more dependent on tax revenues. Pro rata cutbacks in intergovernmental transfers would affect counties most, although they would also dampen municipal revenues.

The proportion of intergovernmental transfers to tax revenues received by local governments in South Carolina falls in the middle of the range developed for local governments in the nine other Southeastern states. Counties in South Carolina derive 50 percent more revenue from transfers than they do from taxes, and the bulk of the transfers are allocated to specific spending programs. Municipalities in South Carolina are substantially less dependent on transfers as a source of revenue, and a greater proportion of their transfers are not allocated to specific spending programs. In other words, municipalities in South Carolina will be much less vulnerable than counties to any pro rata cutbacks that may result from fiscal conservatism.

The Management Bookshelf

By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

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THE ART OF PROBLEM SOLVING,
Accompanied by Ackoff's Fables
by Russell L. Ackoff
John Wiley & Sons, Inc.
605 Third Ave.
New York, NY 10016
1978, 214 pp., $13.95

This book provides a readable discussion of creativity and problem solving. Drawing on his many years of writing experience, the author includes numerous examples to illustrate his technique and approach.

MBO: BLUE COLLAR TO TOP EXECUTIVE
by R. Henry Migliore
Bureau of National Affairs
1231 25th St., N.W.
Washington, DC 20037
1977, 178 pp., $12.50

The emphasis here is on how managing by objectives (MBO) techniques can be applied successfully. The experiences of such a program in a plant at Continental Can are used to illustrate the viability of this approach to real world situations.

MANAGERS FOR THE YEAR 2000
Edited by William H. Newman
Prentice-Hall, Inc.
Englewood Cliffs, NJ 07632
1978, 133 pp., $6.95

This book is based on papers presented at a 1976 Columbia University symposium. It presents a preview of the year 2000 and the qualities managers will need to operate in that future environment.

FISHBOWL MANAGEMENT
by Harold Sargent
John Wiley & Sons, Inc.
1978, 383 pp., $15.95

This book is intended for practicing managers as well as students. The author's central idea is that management information on policies and objectives should be kept highly visible throughout the entire process of making decisions, communicating decisions, and following up on decisions.

LOBBYING THE CORPORATION: CITIZEN CHALLENGES TO BUSINESS AUTHORITY
by David Vogel
Basic Books, Inc.
10 E. 53rd St.
New York, NY 10022
1979, 270 pp., $14.95

The author examines the "citizen lobbies" movement and its implications for management. He reviews how past political conflicts have affected business and the growing willingness to challenge corporate decisions.

LONG-RANGE FORECASTING: FROM CRYSTAL BALL TO COMPUTER
by J. Scott Armstrong
John Wiley & Sons, Inc.
1978, 612 pp., $24.95

This is a concise, well-organized guide to the topic of long-range forecasting. It shows the reader how to define and structure forecasting problems and develop an appropriate solution. The author describes and evaluates existing forecasting methods and discusses the strengths and weaknesses inherent in each approach.

HELPING THE TROUBLED EMPLOYEE
by Joseph F. Follmann, Jr.
AMACOM
135 W. 50th St.
New York, NY 10020
1978, 260 pp., $15.95

The purpose of this book is to aid management in dealing with the troubled employee. It discusses the various types of mental disorders and their causes, forms of treatment, and sources of help and counseling. It further notes what to do to help prevent the occurrence of such problems.

* * *

Readers are invited to submit titles of books that they wish to call to the attention of others.

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STATISTICAL INDICATORS OF SOUTH CAROLINA BUSINESS

ITEMS	June 1979	June 1978	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 2,881	$ 2,725	5.7
Demand	1,569	1,514	3.6
Time	1,307	1,206	8.4
Loans, Member Banks ($ millions)	2,015	1,881	7.1
Savings in Savings and Loan Associations ($ millions)	4,871	4,423	10.1
Sales and Use Tax Collections ($ thousands)	42,152.9	38,288.6	10.1
Labor Market:			
Civilian Labor Force (thousands)	1,358.1	1,334.6	1.8
Employment	1,276.0	1,253.7	1.8
Rate of Unemployment (percentage)	5.6	6.1	— 8.2
Nonfarm Wage and Salary Employment (in thousands)	1,170.0	1,140.4	2.6
Manufacturing	391.6	388.1	0.9
Contract Construction	65.9	69.4	— 5.0
Transportation and Public Utilities	51.0	49.0	4.1
Wholesale and Retail Trade	221.6	212.2	4.4
Finance, Insurance, and Real Estate	46.0	43.5	5.7
Services, Mining, and Miscellaneous	158.4	146.9	7.8
Government	235.5	231.3	1.8
Average Hourly Earnings, All Manufacturing (in dollars)	$ 4.99	$ 4.57	9.2
Initial Unemployment Claims Filed in South Carolina	13,415	18,324	—26.8
Placements by South Carolina Employment Offices (nonagricultural)	12,710	16,224	—21.7
Indexes of Prices Received by Farmers (1966-68 = 100)			
All Farm Products	215	197	9.1
All Crops	231	215	7.4
Livestock and Products	216	178	21.3
S.C. Parity Ratio	86	90	— 4.4
New Motor Vehicle Registrations			
Cars	10,453	13,112	—20.3
Trucks	3,072	4,392	—30.1

	January 1979	January 1978	First 6 Months 1979	First 6 Months 1978	Percentage Change
Valuation of Building Permits Issued ($ thousands)					
Total for all S.C. Counties	$160,015	$139,988	$920,863	$710,821	29.5
Available County Data					
Aiken	13,889	9,224	33,468	30,510	9.7
Berkeley	4,920	5,184	25,870	36,969	—30.0
Charleston	18,272	11,560	114,652	68,999	66.2
Dorchester	4,367	7,523	28,603	19,791	44.5
Lexington	8,258	6,539	48,870	32,407	50.8
Richland	9,007	9,831	61,361	37,894	61.9
Greenville	22,897	14,041	106,156	74,626	42.2
Pickens	7,861	3,779	22,416	15,898	41.0
Spartanburg	10,098	7,298	63,166	49,153	28.5

[a] Less than one-half of 1 percent.

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DIVISION OF RESEARCH ■ COLLEGE OF BUSINESS ADMINISTRATION ■ THE UNIVERSITY OF SOUTH CAROLINA

Volume XXVI, Number 2
November 1979

"Industrial Real Estate Decisions Pose Unique Problems for Executives"
by Arthur E. Warner

"Why Computer Systems Fail"
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"The Employer and Employment Laws"
by James J. Baldwin

"Bottom Lines"
by James B. Edwards

"A Note on Wage Differences Between Men and Women"
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Statistical Indicators of South Carolina Business

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3 **Industrial Real Estate Decisions Pose Unique Problems for Executives.** Dr. Arthur E. Warner, USC's Chair Professor of Real Estate, Property Finance, and Urban Development, points out to industrial executives that real estate decisions are different from other management judgements and explains why. He also provides useful suggestions that should reduce the possibility for errors in making real estate decisions.

8 **Why Computer Systems Fail.** "Computers are just machines designed and used by people in tasks specified by people," explains Dr. Robert A. Fleck, Jr., Dean of Clarion State College's School of Business Administration. He points out some of the reasons why computer systems fail to live up to the expectations of society, and adds that as long as management remembers its responsibilities for controlling data processing functions, failures may not be eliminated completely but they should be reduced.

12 **The Employer and Employment Laws,** a regular feature by James J. Baldwin, Partner in the law firm of Haynsworth, Baldwin and Miles. In this month's column, **The EEOC's New Investigatory Methods: Pitfalls for the Unsuspecting Employer,** Baldwin describes EEOC's new investigatory methods and tells employers how to avoid potential pitfalls.

14 **Bottom Lines,** a regular feature by Dr. James B. Edwards, Professor of Accounting and expert consultant to management. In this second offering, the S.C. Tax Code, which contains provisions that make it different from Federal tax rules, and how an outside accountant can help you in planning and controlling your business are among the items Dr. Edwards discusses.

17 **A Note on Wage Differences between Men and Women.** Light is shed on the existence and magnitude of the female-male wage differential by Dr. B. F. Kiker, USC's Jeff B. Bates Chair Professor of Economics, and Dr. Henry L. Crouch, Pittsburgh State University's Economics Department Chairman, as they apply a richer data set than others have used to a simultaneous regression model.

21 **Energy: Everybody's Business.** Finding the correct answer to the energy problem will be the key to future prosperity and expansion. Beegie Truesdale, Director of Public Information for the Governor's Office of Energy Resources for the State of South Carolina, tells what that agency is doing in the energy field.

25 **Voting on the Minimum Wage: the 1977 Experience.** Dr. Noel D. Uri provides interesting information on how legislation wins Congressional approval, and uses voting on the minimum wage to reveal the give-and-take that occurs.

29 **USC College of Business Administration Update: Foundation Fellows Named,** an annual feature in which Virginia Ann Van Seters, Associate Editor for USC BA's Division of Research, introduces that college's latest Foundation Fellows.

31 **The Management Bookshelf,** a regular feature in which Dwight Gardner, USC BA's Business Librarian, reviews books of interest to business practitioners.

32 **Statistical Indicators of South Carolina Business.** A regular feature, listing the latest available data.

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This month's cover: "Garbage In — Garbage Out!" or why computer systems fail. See article by that title on page 8 of this issue.

Industrial Real Estate Decisions Pose Unique Problems for Executives

By Arthur E. Warner

Virtually all types of industrial activities require land, buildings, and other improvements to fabricate, assemble, package, store, and transport their products to market. The complex decisions executives and managers must make concerning where to locate, whether to buy or lease, whether to use internal funds or borrow in the capital markets, whether to buy for present or future use, and whether to develop one or more installations have significant impact on the profitability, competitive edge, and, in some instances, the very survival of the firm. Questions like these that confront business executives on a recurring basis suggest that decision makers should be prepared by educational background, training, and experience to handle such situations knowledgeably and dispassionately.

Yet, all too frequently, that is not the case. For many firms major real estate decision making situations occur so infrequently that managers are ill-prepared to grapple with the complex web of factors involved in reaching a sound conclusion. One observer, Vance Packard, states that "Some of the massive (corporate) moves apparently have been made at least partly for personal, almost whimsical reasons."[1] This appears to be particularly true when the relocation of a corporate headquarters is being considered. Leonard Yaseen of the Fantus Company noted in a comment in **Business Week** that

> The decision-making process is his, the chief executive's, and when it comes to moving his decision is sometimes a very personal thing. Unfortunately, a good many executives react by moving the corporation to somewhere near their own residence or community. It's a very unsatisfactory way of solving their relocation problems.[2]

In addition to the limited knowledge, the lack of experience, and the personal whims that influence decisions involving industrial real estate matters, the fact is well established that real estate resources are different from other resources used in producing goods and services. Furthermore, real estate markets differ from other kinds of markets in several ways. As a result, the decisions managers must make regarding industrial real estate choices as compared with other types of management decisions are different and pose special problems of their own.[3]

UNIQUE CHARACTERISTICS

Fixed Location

What are the unique characteristics of real estate, particularly industrial real estate, that set it apart from other resources? The first is that all real estate is fixed in location. Land itself is immovable, and buildings and equipment can be moved only by incurring tremendous costs. Fixity of location

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[1] Vance Packard, **A Nation of Strangers** (New York: David McKay Co., 1972), p. 37.

[2] "When Business Moves Where the Boss Lives," **Business Week,** 30 September 1972, p. 69.

[3] The classic case for this point of view is succinctly stated in Arthur M. Weimer, "Real Estate Decisions Are Different," **Harvard Business Review,** November-December 1966, pp. 105-12.

also implies that each parcel of real property is unique. No two parcels can, at the same time, occupy the same space on the earth's surface. Furthermore, the market for these properties depends entirely on uses that can be made on the site itself. Since the property cannot be moved, the market must come to the property. The market for industrial properties, therefore, is considerably more limited than that for most other commodities and products bought and sold in the marketplace.

The value of real properties depends on the income that is generated at its specific location. In the case of industrial real estate, the amount of income depends upon the direct uses made of the property in manufacturing the products the firm produces.

Because of the immobility of industrial properties, most companies attempt to minimize the geographic movement of their facilities as much as is consistent with efficient and profitable operations. Aside from direct costs associated with moving, disruption of production processes also results in losses in revenue during the moving period. Despite pressures to move brought about by changing location factors and obsolescence due to increases in knowledge and technological advances, a high degree of immobility does characterize most industrial locations.

Long Life

Another major characteristic of real estate resources is their long life span. Land itself represents just about as much permanence as can be found, and buildings and equipment are built to last for decades, even centuries. This is especially true of industrial improvements, for many facilities are built to endure for extremely long periods of time to assure quality of production and for reasons of safety.

The physical appearance of permanence of industrial plants, however, sometimes misleads even the most objective and dispassionate managers. When they see a sound structure of brick and mortar they tend to forget that income, not physical features, determines the value of their property. As a matter of fact, the presence of a building on a site may greatly diminish the value of a parcel of land. This is especially true in cases in which the improvement is functionally obsolete and must be demolished before another income producing asset can be constructed.

Because industrial properties have a long life they generate income, or have a chance to do so, over a long period of time. The risks of variations in the income stream are greater for industrial real estate than for nearly all other forms of investment. This is due in large measure to the roles played by depreciation, obsolescence, and the complexities of the industrial processes involved. Technological changes in these processes, as well as construction and design, can render industrial facilities functionally obsolete quite rapidly. Investment risks, then, are magnified, and management creativity and adaptability are challenged.

Heavy Investment

A third characteristic that differentiates real estate from other resources is the heavy investment required to develop the facility. Industrial real estate represents a large commitment of corporate funds. As a consequence, decisions related to industrial real estate are major ones that need to be made at, or near, top management levels. Balance must be struck between the needs to finance productive operations and the needs for land and buildings. Special and varied types of financial arrangements frequently are required to provide a satisfactory balance. Both equity and borrowed funds may be committed in substantial amounts; therefore, industrial real estate is quite frequently financed by investor-owners who lease space to users. If funds are borrowed, financing costs will affect the financial requirements of the firm for as long as the contract is outstanding.

Interdependence of Private and Public Property

Another unique characteristic of industrial real estate is that only in unusual and rare situations can a parcel of industrial property be utilized except in conjunction with public property. This interdependence increases in complexity as the city grows in population, structure, and organization. To many business executives who are accustomed to making judgments over which they have a high degree of control, this feature of industrial real estate decision making is unusual and often frustrating. Nevertheless, if access to, and use of, private parcels for industrial purposes is to be had, accessibility must be available through public roads or streets, or easements must be obtained to provide rights-of-way through other parcels of private property.

In addition to accessibility, industrial properties must also have water, sewer facilities, drainage, and waste disposal; the provision of such utilities as electricity, gas, telephone, and other communication services; and certain public services, including police and fire protection and waste removal. All of these public services require capital outlays and continuing financial support through taxes and other sources of public revenues.

Market Characteristics

Industrial real estate markets differ from other types of markets in several ways. First, there is no national exchange comparable to the stock market; rather, the market is highly local in nature. Second, many existing industrial properties possessing a high degree of obsolescence were built for highly specialized purposes and are located in inharmonious neighborhoods.

Third, the supply of industrial properties is relatively fixed, due in part to the long life of such properties. Therefore, existing properties constitute a very high percentage of the supply available at any time. The long period of time required to build new industrial plants, plus the large capital investment required, limit sharply the ability of the market to increase supply in response to changes in demand. In numerous areas new space added during the year does not exceed the units torn down or destroyed by fire and other disasters.

Fourth, since the supply of industrial real estate is fixed, specialized, and, in many instances, obsolete, demand is the primary factor that influences prices in the short run. When demand is high relative to supply, prices advance and continue to rise for fairly long periods of time because it takes a good while for supply to catch up. On the other hand, when demand drops, prices fall for extended periods because the level of supply remains steady for a long time.

Fifth, demand for industrial real estate is a form of derived demand, that is, it is based on the demand for another product or service that results from the industrial processes of fabrication, assembly, storage, or distribution. These are reasons for the need for industrial real estate, and they may have little or no direct connection with the supply available at any point in time. Markets, then, are seldom in balance, making it difficult to dispose of industrial facilities at any price. Since the decision to sell facilities is brought about for valid reasons relating to a firm's overall operation, it may be very difficult to dispense of a facility quickly, efficiently, and at a reasonable price to minimize the financial drain of unproductive investment in an idle asset.

For these reasons, industrial real estate markets are highly flexible and offer little room for maneuverability for managers. They generally are characterized as "thin" markets. The recent sharp escalation in energy prices depresses the value of industrial real estate and adds an element of uncertainty that tends to discourage capital formation. To offset these developments, stronger tax incentives and other inducements to stimulate investment in industrial properties may be needed if a stagnating industrial real estate market is to be averted.

STRATEGIC DECISION QUESTIONS

The foregoing comments on the major distinctive characteristics of industrial real estate should help to provide guidelines for executives and managers confronted with decisions like those identified at the beginning of this article. Key considerations include where to locate facilities, whether to buy or lease, whether internal funds or borrowed capital should be used in financing the improvement, whether the facility should be bought for present or future use, and whether the company should operate from one location or develop multiple installations. It is not possible to provide specific answers to these questions because of the wide range of differences in properties, markets, local conditions, and specific objectives of individual firms. It is possible, however, to outline some guidelines and alternatives that might be followed by executives when faced with decisions involving industrial real estate. These guidelines and alternatives are discussed in the following sections.

Where to Locate?

"Where should we locate?" is, without a doubt, the most crucial decision the industrial executive faces, for the continuing success of the firm may depend on it. Since the company is in business to maximize profits, the location that offers the best competitive advantage should be selected even though it may not be the least cost location.[4]

Unfortunately, no formula exists that can pinpoint the most profitable location for any industry or firm at a given time. Some general observations and guidelines, however, are available to assist managers in narrowing the geographic limits.

At the very outset, the decision to move, expand, or establish an industrial facility should take into consideration two fundamentals mentioned above.

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[4] This point and the following discussion are based on **Industrial Real Estate**, Kinnard & Messner, Society of Industrial Realtors, Washington, D.C., 1971, pp. 43-56.

First, that investment in an industrial plant is a long-term proposition that must retain a competitive edge throughout its life span. Second, that although production, distribution, and transportation technologies will change through time, the basic economics of the industry and the economic rationale of the location must remain compatible.

Both cost and demand factors are relevant to the location decision. As noted above, demand is the more dynamic of the two. Cost factors include land prices, labor costs, community facilities, availability of housing, materials and equipment costs, and transportation costs. Demand factors that influence location decisions in competitive markets include product sensitivity to price changes, location of competitors, importance of proximity to customers, importance of direct contacts with customers, extent of market area, and relative competitiveness of the industry.[5]

One way to identify the factors that are most important in making the industrial location decision is by classifying industries into basic types. A convenient system categorizes industries into five groups:

1) Those industries most oriented toward markets
2) Those industries most oriented toward raw materials
3) Those industries most oriented toward transportation
4) Those industries most oriented toward labor
5) Footloose industries.

Market oriented industries that produce consumer goods will tend to follow population concentrations and movements, while firms that produce for other industries will be influenced by the demand for those goods. Raw materials oriented industries require installations that are located near the source of raw materials to reduce inbound transportation costs. Industries that require large amounts of energy will locate near fuel, electricity, and other energy supply sources. On the other hand, firms that employ industrial processes that lose weight in manufacturing will tend to locate close to the source of raw materials or supplies.

Those industries tied to transportation of high transfer costs, including warehousing and bulk storage firms, will tend to locate close to the appropriate mode or type of transportation. Industries whose location decisions are influenced by the supply of available labor generally will be concerned with the accessibility of special skills as well as with the cost of labor.

There are certain types of industry that are not tied to any of the foregoing criteria. These firms do not have high transportation costs on either input or output, and generally employ relatively few highly skilled workers. Examples of such industries that might locate anywhere are precision instrument manufacturers and electronic components producers.

Buy or Lease?

The decision whether to buy or to lease industrial plants will be based, at least in part, on the financial condition of the firm and any special features or requirements. In some cases there may be no real choice. If, for example, highly specialized requirements for space and equipment are involved, leasing simply may be out of the question. On the other hand, a firm may be so short of capital or borrowing strength that ownership is out of the question.

In other cases, some executives may have preferences based on past experiences. For example, an executive who has lost a favored location due to the expiration of a lease may adopt a policy to stipulate ownership under nearly all conditions. In instances where the location itself is used extensively in promoting and advertising the company or its products, the firm probably will lean heavily in favor of ownership and avoid leasing. Locations that are viewed as having high potential for development into a valuable asset will also dictate ownership over leasing.

Executives who have experienced highly unsatisfactory episodes with ownership of industrial facilities, on the other hand, will adopt policies that favor leasing under nearly all circumstances. There have been instances, for example, in which firms that were holding land for future use had part of their property condemned for public use with only nominal compensation by the condemning authority.

Tax considerations also can influence the buy-or-lease decision. Payments on a lease as rent are a direct business expense that is deductible in determining the amount of income exposed to Federal income taxes. At the same time, depreciation charges and interest payments on borrowed funds are deductible for tax purposes. In some situations depreciation schedules dictate the sale, as well as the purchase, of industrial property. In recent years Congress has tended to amend the income tax laws to encourage direct investment in plants and equipment.

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[5] For a discussion of these factors see Melvin L. Greenhut, **Plant Location in Theory and Practice** (Chapel Hill, N.C.: University of North Carolina Press, 1956), pp. 279-80.

At times, expectations regarding trends in land values may be persuasive. Expectations of higher values will favor ownership, while beliefs that values will be lower in the future will favor leasing.

Equity or Borrowed Funds?

Once the decision to purchase rather than lease has been made, the alternatives of using internal funds or borrowing in the capital markets can be evaluated. In some cases the terms on which funds can be obtained will be instrumental in making the decision. Financial terms include the interest rate, the duration of the borrowing contract, the presence or absence of prepayment penalties, the amortization requirement, and any other factors that lenders may require. These terms and conditions can be compared with the returns that could be anticipated from using the amounts involved in the firm's operations.

Cautious executives frequently have fears of the risks involved in entering into long-term contracts to borrow on the collateral of real estate holdings. They understand that it is difficult, if not impossible, to convert real property into cash, especially when the assets are fully utilized in production. If mortgages mature at times when it is difficult or inconvenient to make required payments or to arrange refinancing, the firm may be faced with insolvency.

Potentially difficult problems for decision makers arise also when properties are placed on the market for sale. The firm's willingness to help a prospective buyer finance the purchase of industrial property may make it possible to obtain a higher price, but this can also tie up corporate funds or borrowing capacity for extended periods of time.

The question whether to use internal or borrowed funds in a real sense relates to the policy decision concerning the extent to which the firm wants to, or should be, in the real estate business. Some firms have found it desirable to establish policies that specify the percentage of corporate funds that are available for real estate purposes.

Present or Future Use?

The consideration to buy now for future use has been discussed in part earlier in this article, and many of the same kinds of factors related to buy-or-lease decisions are applicable. Expectations regarding trends in land prices and values also have an important bearing on this determination.

A significant element is the extent to which the firm is apt to exert a strong influence on future land uses and values in the surrounding area. Because of their size and impact on employment in the community, many industrial firms are creators of land values. In such cases, a firm may wish to buy for the future in order to reap the benefits that will flow from the values created. In contrast, companies that have little or no impact, or possibly even an adverse effect, on their surroundings will have very little incentive to buy for future use. Concern over the prospects of inflation in price levels and property values or over the unavailability of property at the time and place needed might influence the decision to buy now rather than later.

The most critical guideline for decision makers to use in buying for the future is the estimation of present value of future returns on investing in land. If future returns will be postponed for fairly long periods of time, say 10 to 20 years or more, the holding costs can be very high since vacant land yields no return and involves some costs including, as a minimum, property taxes and interest on the capital investment. Assuming that returns on the investment do not commence until the land is put to use and that this must be discounted for 10 years or more, returns must be very substantial to justify the investment. By way of example, $1,000 earned in a year, if discounted at 7 percent, is now worth $930. If the same amount is earned 15 years from now, its present worth is only $362.

One or More Installations?

Many alternatives are available when determining whether to operate from one or multiple locations. All of the factors that influence the where-to-locate decision are equally applicable here. Frequently, firms whose operations are regional, national, or international find it desirable to operate from more than one location. Some manufacturers, however, may not have the alternative of operating from multiple locations if it is essential for them to have all activities carried on in close proximity to each other.

Functions can be separated at times in such a way as to permit operations to be scattered. Executive offices may be located in one place while manufacturing, storage, shipping, and related activities may be situated elsewhere, frequently on less expensive sites. When companies operate from multiple locations in several cities or states, they may find it profitable to have their headquarters located in or near financing, advertising, legal, or governmental centers.

Firms engaged in international activities frequently are confronted with tough problems in determining how operations should be balanced between central and branch locations. Real estate factors often are of major importance in making these decisions. In a number of countries land ownership either is not possible or is possible only on such a restricted or costly basis as to favor leasing.

Tax considerations frequently exert a determining influence both in the United States and abroad. Taxes, for example, may dictate that goods be manufactured in one country or state for sale elsewhere.

CONCLUSION

The essence of this article is to point out that real estate decisions are different from other management judgments. These differences arise from the basic characteristics of industrial real estate and the markets in which it is bought, sold, leased, and financed.

Careful consideration of the factors discussed hopefully will reduce to an extent the possibility for errors in making real estate decisions. The chances for error, however, are not eliminated because decisions necessarily relate to fixed sites in a highly dynamic economic, social, and political environment and to expensive resources with long lives that require investment of large amounts of money, accessibility through private and public property, and the application of present value concepts. To complicate matters further, real estate markets are unorganized, local, and characterized by inflexible supply and volatile demand.

Why Computer Systems Fail

By Robert A. Fleck, Jr.

INTRODUCTION

Since the introduction of the first commercially viable computer system in the early 1950's, the rate of installation of computer systems has been at an almost exponential rate. Some forecasts indicate that data processing and related computer applications will be one of the largest, if not the largest, employer by the end of the 1980's. This rapid growth has not been, however, without its problems.

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The computer is a highly visible artifact of a very technical civilization. As such, it has, on the one hand, often been blamed for many of society's ills, for example, unemployment caused by increased automation. Because of its visibility it has even been physically attacked by those wishing to make some form of radical political statement. On the other hand, the computer has also been called the brain of an organization and its chief problem solver.

Neither the concept of the computer as an intelligent brain nor as the cause of major social ills, however, is the correct one. Computers are just machines, designed and used by people in tasks specified by people. The function of this article is to point out some of the reasons why computer systems fail to live up to many of the expectations of society in general and management in particular.

It is hoped that such a discussion will help the reader to have a better awareness of the issues involved in computer systems and therefore to avoid many of the pitfalls of operation.

REASONS

Some of the more common reasons why computer systems fail are discussed below. While this treatment is not intended to be exhaustive or mutually exclusive, it does represent a list culled from many of the systems with which the author has been acquainted, and includes those factors that seem to be a common base for failure.

Technical Imperative

Assume, for purposes of demonstration, that two firms in a city produce competing products using essentially the same production methods. Both firms process internal records via manual systems. One day, Firm A purchases a small computer, and a year later, Firm B begins to notice that Firm A has increased in size, revenue, and profits. The management of Firm B, observing that the only visible difference between the two companies is that Firm A has installed a computer, thinks that the solution to its decreasing competitive position would be to install a computer system, too. Firm B soon discovers, however, that the addition of such a system contributes greatly to its fixed costs of operation. Because of the lack of planning and a misunderstanding of the situations confronting Firm A, Firm B begins to find that its cash-flow position is worsening, and that it is in severe jeopardy within the marketplace. In other words, Firm B has fallen into the trap of believing that technical excellence, especially with computers, is equivalent to economic superiority.

Perhaps this is an extreme example of technical imperative, but more subtle ones can be found. Firms sometimes purchase new peripherals such as disk drives and printers simply because they represent the latest technological advances in the industry. Some managers believe that to be without the most modern equipment indicates to the public and to employees a lack of business acumen. Yet, if a company accepts this philosophy and keeps up with the latest equipment or services, it may soon discover that such purchases do not provide the complete solution to problems and may even worsen some situations.

Abdication of Responsibility

Assume that the owner of a large automobile parts distributorship asks his data processing staff to redesign the inventory file and to add new items to it so that better control can be maintained of the increasing number of parts that must be held in stock. The data processing department responds that such a request is not possible, given the equipment currently available for their use. On the basis of this evaluation by the data processing staff, the owner decides to drop his request.

In an instance such as this, a lower level within an organization may dictate the procedures, and often the policies, of line management. In this particular case, there may have been many possible reasons for the response given by the data processing staff. The rationale of its argument that it was not possible to redesign the inventory file given their current equipment may have been true. However, it may also have been an indication that the data processing staff (1) was not interested, (2) was not willing, or (3) did not have the expertise to perform the function required by management. These staff experts may also have believed that the request by line management was prohibitively expensive. Making the judgment of whether or not a particular request is too expensive, however, is not data processing's responsibility and should not be delegated to technicians. This author believes that while some applications may be expensive and time consuming, very few are really impossible. To allow the data processing staff to make the decisions affecting the corporate operations of the firm is to court disaster.

It is not being advocated here that line management involve itself in operations management. It is suggested, however, that line management expect and require documentation and rationale for recommendations of the data processing staff just as they do of other departments. To do otherwise is to abdicate management's responsibilities and to turn them over to technicians.

Expectation of 100 Percent Reliability

Advertising and sales brochures tend to imply that a computer system, once installed, will operate 100 percent of the time. Regrettably, such a state of perfection is rarely, if ever, achieved. Most firms feel extremely fortunate if they are able to reach 99 percent uptime, while 95 percent actual operating time is considered an acceptable minimum. Because many firms expect 100 percent reliability, however, they often neglect to have sufficient backup systems when things do go wrong.

In a manual system, an organization often will have alternative methods of producing required documents. These backup techniques may involve hiring additional people on a short-time basis or requiring the present staff to work overtime. On a computer system, however, there is no such thing as a "panic button" or a magic lever that will enable the system to run faster to make up for lost time. Moreover, it is essentially impossible to hire additional computing resources on short notice. One of the hidden costs, therefore, on any installation is necessary backup systems.

Forgotten Linkages and Created Duplication

It is not unusual within large organizations for several departments to be evaluating alternative ways of handling internal processes simultaneously. This is especially true where there is no coordination or centralization of planning. This means that a firm may find itself with duplicate and redundant systems (and costs) which might have been better handled by one slightly larger centralized system.

Such was the case at a hospital in which one department was evaluating a small computer for environmental control. At the same time another unit was investigating the use of a small computer system to control access to certain areas on the grounds and within the hospital. As a result, both departments contacted different vendors, but ended up purchasing essentially the same system. After the equipment was installed, it was determined that one larger system could have met both needs. The duplicate systems created duplicate costs for maintenance and operation and added needlessly to the high cost burden of the institution.

This author is not advocating centralized data processing systems over decentralized systems. Rather, he is strongly recommending centralization of planning and coordination. Duplication of systems without proper planning can also prevent later integration of efforts because of differences between and within various computer brands.

Lack of Concern for Users and/or Data Gatherers

All data processing systems must accept data at the front end and prepare reports at the back end. Often this is an overlooked area in the design of the system. Yet, this is the interface that most people relate to when using the automated system.

How many people have filled out forms and found, after completing them, that they were supposed to write below the line instead of above it? How many customers have attempted to pay bills using window envelopes and, after sealing them, have found either that the check obscured the address or that the billing card was put into the envelope in reverse and the address was not visible through the window? Some companies, aware of these customer difficulties, have attempted to find ways to relieve these frustrations. For example, they will include a self-addressed envelope with the bill to be remitted. Unfortunately, however, many of these bills will not fit into the supplied envelope until they are refolded. In reality, therefore, the customer's problems are merely compounded, not relieved.

Another problem that data processing experts create for the layman in reports is the use of cryptic symbols to abbreviate names, inventory levels (is it units, boxes?), vendor names, and so forth. For those already familiar with the abbreviations, interpretations may not be difficult. The majority of the readers, however, will likely not be so informed and will misinterpret, misuse, or ignore important reports.

Undue blame should not be placed on the data processing department, however. Its members usually do try to design reports (except when an abdication of responsibility exists) that will meet user needs. If the user is given an opportunity to participate in the design process and refuses, then the data processing department should not be faulted.

Unrealistic Time and Cost Estimates

For reasons too numerous to cite here, technically oriented personnel typically fail to estimate correctly the time and costs required to implement a system. Many of the estimates provided by data processing personnel are extremely optimistic in terms of the time required to complete a project and the actual cost of implementation. The problems caused by the underestimation of cost are obvious. Those associated with misspecification of implementation and conversion dates are a bit more subtle.

A company planning to convert from a manual to an automated payroll system on a given date is courting disaster if it does not complete implementation on the specified date. Since alternate systems are disassembled in preparation for new systems, failure of the new system to arrive on time causes rapid retrenchment and additional cost. Such an experience can then create the opposite problem. The user becomes reluctant to relinquish the old system for fear that the new one either will not perform properly or will not be ready when needed. He decides, therefore, to maintain duplicate systems (with duplicate costs).

Lack of Analysis, Planning, and Statement of Measurable Objectives

Without analysis, planning, and a statement of measurable objectives, management will be unable to ascertain either the actual date a system will be installed or the cost of development. Without measurable objectives it will also be impossible for anyone to determine whether or not a system has succeeded or failed. Some managers may find it desirable to have weak objective measures of performance for a system. This way, if the system does not meet expectations, it may be argued that it was not designed to perform certain tasks. It would appear, therefore, that it was not the fault of the designer that the system did not work properly.

The responsibility of management should be, however, to assure the organization that objectives are clearly stated for all systems so that they can be evaluated accurately. An actual example of what can go wrong when management fails to make a complete analysis of a system under consideration will serve to illustrate this point.

A firm contracted for a small computer system. During the negotiation phase of procuring the desired equipment, management failed to inquire explicitly about a number of features, including training. The vendor had indicated training was available. This apparently satisfied management which assumed that all personnel would be trained free, on site. When management did inquire formally about training at a later date, however, it found that only one course was available, and this with only minimal content. Further training was offered only infrequently, to a limited number of individuals, and only at the vendor's home office. There were additional training programs that could be provided on site, but only at exorbitant prices. Had management made the proper inquiries before it purchased the system, a considerable amount of money could have been saved.

Failure to Respond to Change When Expected

In a manual system, as the volume of data processing increases or decreases, additional personnel may be hired, laid off, or asked to work on extended or reduced hours. Computer systems, however, come in lumps. As the processing requirement of a firm expands, it may be difficult to add additional capacity without massive or dramatic changes in the hardware or software. By the same token, if the processing requirements of the firm decline, it may be equally as difficult to reduce the actual processing capacity (and hence the cost) without drastic changes in the system. It is almost impossible to lay off a disk drive of a card reader. Compounding this issue is the fact that once the size of the system has been established, a requisite number of personnel are required to operate it, regardless of the number of transactions processed. Therefore, if there is a decline in processing needs, it becomes almost impossible to reduce the number of data processing personnel.

Failure to Appreciate Privacy and Security Issues

In a manual system, confidential data very often were maintained at a central site to which only a limited number of authorized individuals had access. The advent of computer systems to store such data, however, has changed all this. The ability of the system to provide access via terminals from remote sites has increased dramatically, and many people have become extremely concerned about access responsibilities. While much legislation has been proposed to safeguard the data maintained by firms, little of this legislation has been fully implemented. Regrettably, the technology of maintaining the security of information has not advanced as rapidly as the technology of storing and retrieving data. Therefore, management may find employees resisting requests for confidential information by their companies even though the rendering of such information may be required by law.

CONCLUSION

This discussion of some of the reasons why computer systems fail is not intended to sound defeatist. Many of the same forms of problems existed previously in manual systems, but were not so readily obvious as they are in the more highly visible computer and automated systems. Furthermore, these problems are not without resolution. Possible solutions can, in fact, be broken down into three general categories, discussed below.

1. **"If you can't lick it, ignore it."** This approach assumes that as long as the system does not interfere with the operations of the firm, even though it may be far from desirable, it does have some benefits. As long as those benefits continue to exist, everything should be left well enough alone.

2. **"The East River Complex."** This response takes the opposite view. It assumes that the computer has negative aspects and cannot be managed. It should, therefore, be "dumped in the river."

3. **"The Cynical Skeptic."** This approach assumes that the computer may have positive

aspects, but that any such benefits need to be analyzed by the same methods any large capital acquisitions would follow.

It might appear that this author would recommend the third method above. In the last two of these approaches, however, management is taking control of, and responsibility for, the system. As long as management remembers it has the responsibility for controlling the data processing functions, the causes for failure mentioned in this article may not be totally eliminated, but they should be minimized.

The Employer and Employment Laws

By James J. Baldwin, LL.D.

The Employer and Employment Laws is a regular feature. Suggestions and inquiries by readers invited.

THE EEOC'S NEW INVESTIGATORY METHODS: PITFALLS FOR THE UNSUSPECTING EMPLOYER

The controversial Equal Employment Opportunity Commission (EEOC) is the Federal agency that handles charges of employment discrimination before a lawsuit is filed against an employer under Title VII of the Civil Rights Act of 1964 (Act). Over the past two years, this agency has undergone substantial internal changes that have altered significantly the manner in which the agency investigates charges of discrimination. Some of these changes, such as a quicker administrative investigation and determination of alleged violations of the Act, are generally beneficial to employers. If the EEOC is likely to make a finding against an employer, it can be advantageous to conciliate the case as soon as possible after the charge is filed in order to minimize potential back pay liability. Other changes implemented by the EEOC, however, represent a profound shift in the commission's manner of processing discrimination claims, and present new and dangerous problems to the unsuspecting employer facing a charge of discrimination.

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New EEOC procedures for processing an individual charge of discrimination provide generally that the charge will be processed through one of two methods: (1) the "fact finding" conference, or (2) the Early Litigation Identification Program (ELI Program). The vast majority of charges received by the EEOC should be processed through the first method — the fact finding conference. This entirely new procedure offers two significant improvements over the EEOC's past investigatory practices: (1) the investigation generally is limited to the issues raised in the individual charge, and (2) the investigation is very prompt. A meeting between the charging party, representatives of the employer, and an EEOC investigator is usually arranged within 30 days of the date the charge is filed. Prior to the meeting, the employer is required to submit to the EEOC certain employment information responding to the charge. Although this new procedure generally results in a quick disposition of a charge, the fact finding conference also creates entirely new and different problems for the employer.

The fact finding conference purportedly is designed to present for discussion the facts relevant to the charge, thus establishing the areas of agreement and disagreement between the parties, and to explore the possibility of an early settlement of the charge. In actual practice, however, the EEOC frequently uses this conference, in an attempt to impose some kind of settlement upon the employer, regardless of the merits of the claim. Everything said during the conference is recorded in writing by an EEOC official and becomes part of the EEOC investigation file for making an administrative finding either for or against an employer if settlement efforts fail.

The strong emphasis on settlement that employers encounter during fact finding conferences results from the EEOC's official policy of disposing of cases through any settlement terms possible to avoid deciding the merits of the charge. Testifying before a Congressional subcommittee on July 27, 1977, EEOC Chairperson Eleanor Holmes Norton emphasized the primary role of settlement in the agency's new approach to handling charges, stating:

> The importance of encouraging settlement of Title VII claims cannot be overstated . . . . [W]e must vigorously pursue settlement as the primary method of administrative enforcement of the law . . . .

The EEOC's policy to pursue settlement of charges "vigorously" bears little, if any, relationship to the merits of the charge involved. The disposition of a charge through settlement is administratively convenient for the EEOC. The EEOC obviously hopes that quick disposition of charges through settlement will improve the poor public image it has earned for allowing the accumulation of a backlog of over 100,000 cases.

Experience thus far indicates that the EEOC's attempt to settle charges during the fact finding conference often works to the disadvantage of the employer, especially if the claimed violation is meritless. Many EEOC investigators who supervise the fact finding conferences appear very much predisposed in favor of the charging parties. Employers frequently are pressured to hire, to reinstate, or to make some monetary award to the charging party in order to settle the charge, regardless of its merits. Employers, however, should recognize that it is sometimes to their advantage to settle a meritless EEOC charge, on a narrow individual basis, in order to avoid a detailed EEOC investigation that could uncover existing, serious "class" issues involving significant back pay liability. Information submitted to investigators prior to the fact finding conference, and anything said in the conference that indicates a weakness in the employer's position, is often exploited by the investigators to pressure the employer into settlement. It is sometimes implied during these conferences that the employer will be given an adverse determination by the EEOC if the matter is not settled. The end result is that some employers pay hundreds of dollars to dispose of frivolous claims. Employers who are not aware of the nature of these fact finding conferences can become the victims of unwarranted settlement demands.

The second new method used by the EEOC for processing charges of discrimination, the ELI Program, creates even more dangerous problems for employers. In February 1979, the EEOC approved the ELI Program as a method for determining whether a charge should be investigated and processed as the basis for a "class action" lawsuit. Such class actions can be extremely expensive to employers because of very large back pay awards that result when liability is found by a Federal court. Charges are chosen for processing under the ELI Program because of the types of issues alleged in the charge of discrimination or because of particular characteristics of the employer, such as a company's low overall representation of minorities or females in the workforce, or its being in an industry targeted by the EEOC for class action litigation. In addition, a charge initially processed as only an individual case through the fact finding conference may later be targeted for processing under the ELI Program on the basis of information obtained from the employer prior to or during the fact finding conference.

Once a charge is targeted for the ELI Program and it is not administratively settled, there is a strong possibility that the employer will be sued by the EEOC or by a private attorney. If the EEOC decides not to litigate the case itself, their procedures provide for contacting and transferring the case to private attorneys who specialize in representing minorities or females in class action litigation. Thus, because the EEOC has become better organized in identifying and processing potential class action issues, the employer's proper handling of an EEOC charge in the initial investigatory stage has become even more critical than it was before the EEOC instituted these new procedures. Employers, therefore, should be very selective about the information they provide the EEOC because such information may provide a basis for the charges being targeted by the EEOC as a class action suit.

The new investigatory procedures implemented by the EEOC should not be mistaken for a change in that agency's aggressive attitude toward protection of those who file charges against employers. Actual experience with these new procedures clearly indicates that employers have not been relieved of the burden of defending against frivolous EEOC charges. Moreover, the investigatory stage of the processing of a charge has assumed a new and significant role. The decisions made by employers before and during these new EEOC proceedings (e.g., whether to settle a charge, how much to offer, and what information to submit to the EEOC investigator) can definitely affect the EEOC's final disposition of the charge as well as the ability of the employer to defend a subsequent lawsuit. Moreover, the employer entering into the fact finding conference must be prepared to give due consideration to an appropriate settlement strategy, if necessary to avoid unintended disclosure of information that could lead to class action issues during subsequent litigation. A thorough appreciation of the EEOC's new investigatory techniques, and especially the government's strong emphasis on early settlement, is necessary for any employer who wishes to evaluate his legal position wisely before engaging in the EEOC's new procedures.

Bottom Lines

By James B. Edwards, Ph.D., CPA, CMA, CIA, CDP*

Bottom Lines is a regular feature that brings attention to practical business taxes and accounting. Suggestions and inquiries by readers are invited.

SOUTH CAROLINA TAX LINES

The South Carolina Tax Code includes some provisions that make it different from Federal Tax rules. One of the important unique provisions of the South Carolina Tax Code. which has undergone recent change, follows.

LINE ONE

The South Carolina legislature has extended the period a business can carry over its net operating losses (NOL) for income tax purposes to seven years for new firms and to five years for those firms established prior to January 1, 1979. The old rules provided a loss carry over deduction limited to those originating in the first three taxable years for a new business or industry in South Carolina. All net operating losses that occurred in the fourth year and thereafter were lost — they could not be carried over to offset profits of other years.

One important point to observe about the old rules was that net operating losses after the first three years constituted a foregone tax benefit. Those losses were isolated away from profitable years. In contrast, the Federal tax rules generally provide a net operating ("business") loss carryback of three years and a loss carryforward of seven years without discontinuance of the provisions. Assume a new corporation was established under the old rules in South Carolina on January 1, 1979. The profits (losses) before income taxes are assumed to be

1979	($15,000)	loss
1980	(14,000)	loss
1981	(12,000)	loss
1982	(10,000)	loss
1983	(5,000)	loss
1984	5,000	profit
1985	10,000	profit
1986	15,000	profit
1987	25,000	profit
1988	35,000	profit
1989	(10,000)	loss
1990	20,000	profit

Generally, under Federal law all of these losses can be carried forward or backward and fully absorbed against profits.

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*For bio sketch on this author, please see text of "USC College of Business Administration Update: Foundation Fellows Named," this issue.

The 1979 loss of $15,000 would be applied:
$ 5,000 against 1984
10,000 against 1985

The 1980 loss of $14,000 would be applied:
$14,000 against 1986

The 1981 loss of $12,000 would be applied:
$ 1,000 against 1986
11,000 against 1987

The 1982 loss of $10,000 would be applied:
$10,000 against 1987

The 1983 loss of $5,000 would be applied:
$ 4,000 against 1987
1,000 against 1988

The 1989 loss of $10,000 would be applied:
$10,000 against 1988

The taxpayer would pay Federal taxes on $24,000 unabsorbed from 1988 and the 1990 profits of $20,000 — a total of $44,000.

Under the old South Carolina law the effects would be as follows.

The 1979 loss of $15,000 would be applied:
$ 5,000 against 1984
10,000 against 1985

The 1980 loss of $14,000 would be applied:
$14,000 against 1986

The 1981 loss of $12,000 would be applied:
$ 1,000 against 1986
11,000 against 1987

The 1982 loss of $10,000, the 1983 loss of $5,000, and the 1989 loss of $10,000 were not allowable under the old South Carolina rules. Therefore, the taxpayer would pay South Carolina taxes on

$14,000 for 1987
35,000 for 1988
—0— for 1989
20,000 for 1990
$69,000 total

The taxpayer would pay taxes on $25,000 more income under South Carolina provisions than under Federal provisions. In fact, this taxpayer could never apply any future net operating ("business") losses as carryforwards under the old South Carolina law.

Under the new rules this example corporation would be given the same tax treatment under Federal and South Carolina law. However, the South Carolina rules are not exactly the same as the Federal rules. Notice:

1. There is no loss carryback provision under the South Carolina Law. Losses cannot be carried backward to profitable years of the past in order to obtain refunds of taxes previously paid.
2. The seven-year carryforward rule under South Carolina law reduces to five years after the first seven years.
3. The new South Carolina law becomes effective for taxable years ending on December 31, 1979, and thereafter. A fiscal year ending on December 30, 1979, or earlier cannot apply these rules until the following taxable year.

This change in the South Carolina law should prove to be attractive to businesses in their start-up years, since they can spread early losses against later profits over a longer period for tax purposes. This change removes one of the major tax deterrents for business relocations and expansions into South Carolina.

Consult your tax advisor for assistance in considering this, sometimes, significant uniqueness of South Carolina tax law.

LINE TWO

Reminder: now is the time for you to consult your tax advisor concerning any transactions you may need to consummate before the end of the year.

ACCOUNTING LINES

Your outside accountant is a very important source of expertise in planning and controlling your business. However, many business persons view these highly trained professionals as merely auditors — and auditors sometimes ask a lot of questions. Perhaps you need to ask your accountant some questions on occasion. Consider the following.

LINE ONE

Are all necessary records required by Federal and state governments and other authorities properly maintained?

LINE TWO

Are all reports and payments required by Federal and state governments and other authorities properly filed?

LINE THREE

Are we taking advantage of all the tax-saving features available — such as investment tax credit, first-year additional 20 percent depreciation allowance, medical reimbursement, life insurance, LIFO inventory method, etc.?

LINE FOUR

Do we have proper control over assets? Strong protection is needed for cash, inventory, and equipment.

LINE FIVE

Are present accounting systems providing us with the information needed to manage? The properties of an effective and efficient management information system include

1. Relevance
2. Accuracy
3. Timeliness
4. Completeness
5. Conciseness
6. Economy
7. Flexibility

LINE SIX

Do we need certified financial statements? Unless required by investors, lenders, or other outsiders, certified statements can be an unnecessary expense.

LINE SEVEN

Can we improve the condition of our accounts receivable? It is expensive to be a banker for your customers.

LINE EIGHT

What will be our projected need for funds over the coming year? With tight money, high interest rates, and a slowed economy, it is essential that you know what your needs will be.

LINE NINE

Do we have the best form of entity? You can operate as a sole proprietorship, a partnership, or a corporation — and the considerations may involve more than tax effects.

LINE TEN

Are you giving us all the services that we need? Sometimes accountants have the impression that you don't really want more than the mandatory services they provide. Remember, you are their customer.

BEYOND LINE TEN

Of course, there are many more questions you could find very useful. This list should be considered as a reminder of some of the important issues you may need to consider with your accountant. You should add to the list as you determine in your best interest.

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Much more to come in the future . . . some practical matters will be explored in depth . . . others will merely be identified . . . please share your ideas, questions, answers, etc. — just send them to Dr. James B. Edwards, College of Business Administration, The University of South Carolina, Columbia, SC 29208.

A Note on Wage Differences between Men and Women

By B. F. Kiker and Henry L. Crouch[1]

The increasing importance of women as participants in the labor force during the last few decades has led to an increasing amount of research effort to identify, measure, and explain male-female wage differentials.[2] Owing to data limitations that led to specification errors and/or errors in variables, the results of most of the analyses of male-female wage differentials may be biased, as the authors themselves point out. Also, analysts who used ordinary least squares (OLS) regression techniques failed to account for the simultaneity between the wage, or earnings, variable and certain of the explanatory variables in regression. In addition, since some of the explanatory variables usually included in regression have different magnitudes or signs for men and women, past analyses that contained a sex dummy variable to deduce wage differences were misspecified.

It is the intent of the authors of this article to shed some light on the existence and magnitude of the male-female wage differential by applying a richer data set than others have used to a simultaneous equation regression model. The estimating technique is two stage least squares (2SLS). Equations are estimated for both men and women. After the wage equations are specified and estimated, the male-female wage differential that would remain if the women in the sample had the same productive, locational, and/or occupational characteristics as the men is calculated. The wage differential is then calculated, assuming that the women in the sample have the same structural wage equation as the men. The latter adjustment equates the rate at which men and women transform productivity-enhancing attributes into wages. This adjustment permits determination of what the female wages would be if the women were able to convert their productive attributes into wages at the particular rates that men do.

MODEL AND DATA

The first step in estimating male-female wage differentials is to specify accurately the wage equation. Microeconomic theory and the theory of investment in human capital teaches that the wage equation should contain at least the following variables:

$$(1)\ \text{WAGE} = F(\text{EDUC, PRODEX, SES, HOURS, DISTWK, IQ, ACHMOT, CURRENT REGION, MARITAL STATUS, INDUSTRY, UNION POWER, HELP, TENURE, VETERAN, FATHER'S SES, FARM BACKGROUND, JOB TRAINING})$$

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[1] The authors are indebted to Dr. C. Russell Hill, Dr. Elchanan Cohn, Dr. William Pierce Liles, Dr. Ronald P. Wilder, and Dr. C. Glyn Williams of the Economics Faculty of the College of Business Administration at The University of South Carolina for their comments on an earlier, expanded draft of this article.

[2] See, for example, Hilda Kahne, "Economic Perspectives on the Roles of Women in the American Economy: A New Paradigm in Economics," **Journal of Economic Literature** 13 (December 1975): 1249-92.

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TABLE 1. Variables in the Wage Equations

Variable Name	Variable Description
EDUC	Years of education
PRODEX	Years of full-time work since age 18
SES	Duncan's index for occupations
HOURS	Annual hours worked
DISTWK	Distance to work (one way)
IQ	An index for level of general intelligence
ACHMOT	An index for the level of achievement motivation
CURRENT REGION	
WEST	Head currently resides in West
SOUTH	Head currently resides in South
NORTHEAST	Head currently resides in the Northeast
NORTH CENTRAL*	Head currently resides in the North Central
MARITAL STATUS	
SINGLE	Never married
MARRIED	Married currently
DIVORCED	Divorced currently
WIDOWED*	Widowed
INDUSTRY	
FINANCE	Finance, insurance, and real estate
SERVICES	Repair, business, personal, professional services
GOV'T.	Government — state, local, national
CONTRAN	Construction and transportation
MANUF-DURABLE	Manufacturing — durable
MANUF-NONDURABLE	Manufacturing — nondurable
TRADE	Retail and wholesale trade
AGRI-MINING*	Agriculture and mining
UNION POWER	Whether respondent belongs to a union
HELP	Connectedness to sources of help
TENURE	Years worked on current job
VETERAN	Whether respondent is a veteran or not
FATHER'S SES	Duncan's index for occupations, applied to father
FARM BACKGROUND	Head grew up on a farm
JOB TRAINING	Head has received on-the-job training

NOTE: Bold type indicates an explanatory variable is endogenous.
*The omitted category.

where **EDUC, PRODEX, SES, HOURS, DISTWK, IQ,** and **ACHMOT** are endogenous variables, and the remaining variables are exogenous.[3] The explanatory variables are described in Table 1; the wage variable is average hourly earnings.[4] A particularly important and unique variable in this data set is productive experience (PRODEX). While most analysts have defined experience as being equal to age minus years of schooling minus 6, the measure used here is the number of years the respondent actually worked full time since the age of 18.

In order to insure the identification of the wage equation, the following equations are specified:

(2) **EDUC** = F(ACHMOT, IQ, FATHER'S SES, FARM BACKGROUND)

(3) **DISTWK** = F(WAGE, INDUSTRY, CURRENT REGION, MARITAL STATUS)

(4) **HOURS** = F(EDUC, WAGE, ACHMOT, TENURE, MARITAL STATUS)

(5) **SES** = F(WAGE, EDUC, ACHMOT, IQ, FATHER'S SES, FARM

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[3] While it is clear from the study cited in footnote 5 of this article how most of the variables are defined, to measure father's occupational status, the occupation of father was transformed by the authors into a Duncan Status Score which assigns prestige or status ranking to occupational classifications.

[4] It should be emphasized that the model specified here implies that not only is the wage a function of the endogenous variables, but that it is jointly determined by them.

BACKGROUND, JOB TRAINING)

(6) **PRODEX** = F(EDUC, ACHMOT)

(7) **IQ** = F(EDUC, FARM BACKGROUND, FATHER'S SES)

(8) **ACHMOT** = F(FATHER'S SES, EDUC)

The data set consists of a subsample of the cross section head of household data collected in a panel survey conducted annually from 1968 to 1975 by the Institute of Social Research at the University of Michigan.[5] Using the observations in a sample of 1,525 men and 206 women who are white and were heads of households during at least the period 1972-'75, the parameters in the wage equation are estimated using 2SLS.[6]

ESTIMATION

Estimates for the male and female wage equations are given in Table 2. The regression coefficients and the variable means (or proportions) in Table 1 are used to analyze the male-female wage differential.

The average male wage in the sample is $6.23 per hour, while the average female wage is $3.82 per hour. These wage rates yield a female-male wage ratio of .61. It would be incorrect to attribute this entire wage differential to sex discrimination unless the males and females were homogenous in every way except for sex. Such homogeneity can be approximated through a process whereby the female endowments of productive attributes and occupational and locational distributions are made equal to those of the males in the sample. Accordingly, here the females are assigned the mean value of each of the continuous explanatory variables that appear in the wage equation. Also, the females are assigned the same proportional distribution as males with regard to the discrete variables. This will cause males and females to be homogenous in all of the characteristics that appear in the wage equation. To the extent that important characteristics have not been omitted, adjusted female wages should closely approximate male wages in the absence of sex-related wage differentials. Using the data in Table 2, these authors found that the female wage after adjustment is equal to 82 percent of the male wage. This represents an increase of 21 percentage points over the unadjusted wage ratio.

Another adjustment technique that is similar to the one just used, but which generally requires smaller adjustments in the level of productive endowments and the distributional characteristics, is to assign males and females the grand means or proportions for each of the explanatory variables. When this latter technique is used, the adjusted wage for females is $5.39 and the adjusted wage for males is $6.02, yielding a female-wage ratio of .90 (see Table 2).

A third type of adjustment combines the male coefficients with the female means or proportions. This adjustment yields a measure of the female-male wage ratio that would occur if females were able to transform their attributes into dollars at the same rates that males do. This adjustment raises the female-male ratio from an unadjusted value of .61 to an adjusted ratio of .62 (see Table 2). This evidence shows that, although men may trade some attributes for wages at a better rate than women do, on the whole, women fare about the same as men in terms of overall returns to their particular levels of attributes.

SUMMARY AND CONCLUSION

As pointed out above, most analysts who have estimated wage equations for males and females have used the OLS technique. When the wage equation contains endogenous variables other than wage, this technique is used inappropriately. To verify that there is a significant difference in the coefficients of the wage equation when OLS is chosen over 2SLS as the estimating technique, these authors reproduced Table 2 using the results of OLS. In general, the OLS technique yielded larger coefficients (particularly for the endogenous variables), some sign changes, and almost twice as many statistically significant variables in the male wage equation and three times as many in the female equation. (All of the endogenous variables in both equations were significant except IQ in the female equation). When the OLS regressions were used to calculate the female-male wage ratios, the following adjusted ratios were obtained: .73 (females are assigned the mean level of male endowments), .79 (females are assigned the coefficients of the male wage equation), and .91 (males and females are given the "grand means" level of attributes).

The primary objective of this article is to estimate adjusted female-male wage ratios. While

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[5] Survey Research Center, **A Panel Study of Income Dynamics** (Ann Arbor, Michigan: Institute of Social Research, University of Michigan, 1972).

[6] The use of discrete (dummy) variables in the regression model requires that one class be deleted from each category of independent variables. It is clear from Table 1 which class was deleted.

TABLE 2. Attribute Endowments, Distributional Characteristics, and Wage Equation Coefficients, Males and Females

Independent Variables	Male		Female	
	Coefficients	Attributes	Coefficients	Attributes
EDUC	—0.07576	12.5312	—0.02825	12.4466
PRODEX	0.04607**	20.5980	0.00340	15.3835
SES	0.01724	41.5095	—0.00165	41.0583
HOURS	0.00004	2211.9403	0.00001	1754.9563
DISTWK	—0.00090	9.4518	0.09480	5.6893
IQ	0.67997	10.1685	0.26636	10.0777
ACHMOT	0.86505	9.3377	0.25437	8.1748
CURRENT REGION				
WEST	—0.36609	0.1672	0.11933	0.2233
SOUTH	—0.15487	0.2872	0.22084	0.2573
NORTHEAST	0.36024	0.2085	0.99361*	0.2185
MARITAL STATUS				
SINGLE	—0.37105	0.0275	0.43255	0.2864
MARRIED	0.81008	0.9200	—0.42733	0.0194
DIVORCED	0.30078	0.0341	0.66015**	0.3204
INDUSTRY				
FINANCE	0.12800	0.0453	0.01155	0.0534
SERVICES	0.88988	0.1790	0.54193	0.4515
GOV'T.	0.35919	0.0557	1.10071	0.0388
CONTRAN	1.05226	0.1646	1.07413	0.0388
MANUF-DURABLE	1.25899**	0.1862	0.77078	0.0825
MANUF-NONDURABLE	1.41064*	0.0708	—0.82749	0.0388
TRADE	0.48334	0.1239	—0.11573	0.1553
UNION POWER	0.72764**	0.2787	0.61587	0.1262
HELP	0.15873*	6.1764	0.22524*	5.5194
TENURE	0.02990*	8.4990	0.07589*	7.3204
VETERAN	0.38854**	0.4826	2.00525**	0.0194
FATHER'S SES	0.00209	28.7338	0.00788	31.0291
FARM BACKGROUND	—0.65684**	0.3180	—0.22339	0.2524
JOB TRAINING	—0.46459	0.2308	9.96322	0.2573
R^2	0.1326		0.3840	

Unadjusted Female/Male Wage = $3.82/$6.23 = .61

a. Adjusted Female Wage/Male Wage = $5.10/$6.23 = .82

b. Adjusted Female Wage/Male Wage = $3.834/$6.233 = .615

c. Adjusted Female Wage/Adjusted Male Wage = $5.39/$6.02 = .90

NOTES:

a. Females are given the mean level of male endowments.

b. Females are given the male wage equation coefficients.

c. Females and males are given the "grand means" level of attributes.

Coefficients significant at the .05 (.10) level are identified by * (**).

the unadjusted ratio is 61 percent, the adjusted wage ratios range from 61.5 to 90 percent, depending on the adjustment technique employed.

Although the magnitude of the ratios obtained here is consistent with that found by other analysts,[7] these authors believe that the ratios are measured in a more dependable fashion than others have done. By applying the richest, most current data available dealing with women at work to a multiequation model, estimated by 2SLS, these authors have avoided some of the problems encountered by others.

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[7] Since the models, data, estimating techniques, and time periods covered differ between this study of male-female wage differentials and those of others, as well as among the others, a comparison of adjusted wage ratios is of little value.

Energy: Everybody's Business

By Beegle Truesdale

What issue today has the potential to alter, beyond recognition, our current economic system; to change radically our way of living; and to create a dangerous political atmosphere of suspicion and distrust between government, industry, and labor? The answer is energy, or rather, the lack of it. If the problem is not handled properly, the results can be catastrophic.

It is too late to bemoan current circumstances of shortages and high prices. Today, these are facts of life. It is not too late, however, to begin a very serious, very successful program of energy conservation and alternative resource development.

Developing such a program is the major goal of the Governor's Office of Energy Resources. This undertaking requires time, money, and commitment, from both the public and the private sectors of society.

Some of that development and conservation is already taking place. For example, South Carolina is currently the leading ethanol producer in the Southeast. In September of this year, production of ethanol went on line in three Palmetto counties: Williamsburg, Florence, and Orangeburg — and that is just the beginning. In the meantime, the Governor's Office of Energy Resources is working toward putting producers of that product together with someone who will mix it with gasoline and distribute it to service stations in South Carolina.

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This means a great deal more than just saving 10 percent of the gasoline normally consumed; or having cleaner, more efficient engines; or developing a decreased reliance on outside energy suppliers. It also means a whole new industry for South Carolina, with new jobs and new revenues. The point is simple: good programs of energy conservation and development are good business.

This article looks first at two of the short-term programs developed by the Office of Energy Resources to deal with the current shortage, and second, at what that office hopes to accomplish with industry in South Carolina. The two short-term programs are the State Set-Aside Program and the Building Temperature Standards Program.

THE STATE SET-ASIDE PROGRAM

The State Set-Aside Program was created originally in 1973 as a response to the Arab oil embargo and the resulting fuel shortage. On February 28, 1979, the Governor's Office of Energy Resources issued an order reactivating the rules regulating supply and allocation of gasoline. Then, as now, the fuel set aside each month was to be used to provide emergency fuel to severely economically-impacted areas.

This interpretation of the original order has been the source of the greatest criticism of the Office of Energy Resources. Nevertheless, that department believes it is this particular action that is responsible for South Carolina's success in dealing with the current shortage.

The majority of states that experienced major inconveniences due to the current shortage either failed to move rapidly in the management of their set-aside program or, in managing, chose to use a pro-rata system of distributing their emergency fuel to the various areas of their respective states. While this latter system may be a "fair" way to distribute emergency fuel supplies, it fails to take into account extraordinary seasonal needs of one area, or the "now-or-never" situations faced by others.

In South Carolina, determining releases from the State Set-Aside Program is based on several categories established to facilitate classification of need due to hardship or emergency. These categories are

1. Agriculture
2. Essential Services
3. Industry
4. Retail/Heavy Agriculture
5. Retail/I's or Impact Area
6. Retail/General

Using these categories and the 12 general area categories to help assure that, within certain limitations, there is equitable distribution throughout the state, South Carolina has thus far managed to avoid major inconveniences.

As for the future, shortages are expected to continue. At the same time, with the increased crude supplies from Saudi Arabia and American production and refining processes at peak level, the situation should also improve. However, it should be remembered that the circumstances on which the department's optimism is based could change tomorrow and, next time, South Carolina might not be so lucky.

THE BUILDING TEMPERATURE STANDARDS PROGRAM

The imposition of temperature standards by President Carter is the emergency measure that has created the greatest amount of confusion. For purposes of clarification of these standards, two explanations may be beneficial here. The first is an outline of the chronology of events that led to the Presidential order, and the second is a recounting of what led to the action taken by the State Budget and Control Board of imposing certain temperature levels in all state buildings and offices.

On the Federal level, Congress began on March 1, 1979, to consider legislation that would provide emergency powers to the President and allow him to require all buildings (with certain exceptions) to maintain temperatures no lower than 78°F in summer and no higher than 65°F in winter. That legislation was passed by both houses of Congress and sent to the President for his signature on July 10. That same day, President Carter both signed the bill and invoked the emergency powers stipulated therein, effective Monday, July 16.

As a result of the immediate implementation of these temperature standards, the U.S. Department of Energy was not prepared to disseminate the appropriate information and materials or to make the proper arrangements and negotiations for participation by the states in the implementation and enforcement of these controls. Negotiations were begun at a meeting in Washington on July 17. As a result of that meeting, two points, in particular, should be stressed.

(1) Until more information concerning cost, assistance, and legal technicalities for the states in the enforcement of these standards is spelled out, the implementation and enforcement of these controls is the province of the U.S. Department of Energy. The Governor's Office of Energy Resources of South Carolina will, of course, do everything within the confines of state jurisdiction to answer questions from the citizens of this state.

(2) The Office of Energy Resources and the Governor are well aware that the imposition of these temperature standards caught everyone off-guard, and that many questions remain to be answered. In the meantime, however, the standards are expected to be adhered to by all concerned on a voluntary basis.

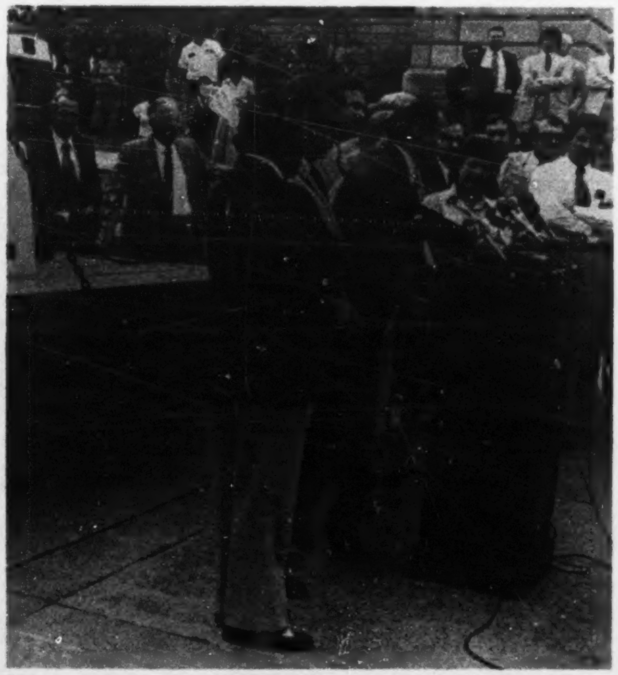
Despite confusion over the implementation and enforcement of these standards, the application is quite clear. Overall space temperatures of no lower than 78°F in summer, and no higher than 65°F in winter, are to be maintained in all buildings except:

1. Residences
2. Hotel and lodging facilities (sleeping rooms — nonsleeping rooms are covered)
3. Hospitals and health care facilities (nonmed or nonpatient areas — cafeterias, pharmacies, administration are covered)
4. Elementary and nursery schools/day care centers (administration areas are covered)
5. Facilities in which temperature and humidity levels are required for:
   - A. Special equipment (this must be based on manufacturer's warranty, service manual, or service contract)
   - B. Manufacturing, industrial, and commercial processes (equipment and materials only)

    C. Storage/handling of food, agricultural commodities, raw materials, goods in process, and finished goods
    D. Protection of animal/plant life or materials, or processes where essential to operation of business
    E. Health of persons in health care offices, physical therapy facilities, and indoor pools (heated only)
6. Facilities whose structure or contents would be damaged
7. Facilities in which compliance would result in a net increase in energy use
8. Facilities in which compliance would result in a certified impossibility of performance.

Certification of exceptions 7 and 8 must come from a licensed professional engineer. In all exemption cases, temperatures must be maintained at levels consistent with exemption and with maximum energy savings.

Concerning the state's action, the Budget and Control Board, on July 12, adopted a resolution implementing temperature levels — no lower than 78°F in summer and no higher than 65°F in winter — in all buildings and/or offices under its jurisdiction. An amendment to that resolution further ordered that lighting levels be adjusted to reflect foot candle standards established by the office of Energy Resources, and that hot water heaters be turned off or lowered to 105°F, unless higher temperatures were necessary for health reasons. The resolution ordered the General Services Division to verify implementation of these standards to that body by August 1, 1979.



Governor Dick Riley plugs a new South Carolina product — gasohol, the "gasoline" of the future.

This action was taken by the Budget and Control Board as a result of recommendations made in the State's Oil Shortage Contingency Plan and not as a reaction to the Presidential Order. Essentially, there are three differences between the order of the Budget and Control Board and that of the President.

1. The **state** order is **permanent** while the **Federal** order is in effect for only **nine months.**
2. The **Federal** order imposes **no** minimum **lighting level.**
3. The **state** order applies only to **state buildings and offices.** The **Federal** order applies to **all buildings** (with exceptions), both **public and private.**

Both the state action and the Federal action were taken as a response to oil shortages. It is estimated that under the Federal plan, consumption of oil will be reduced by 200,000 to 400,000 barrels a day.

Considering South Carolina's serious shortage of diesel fuel last July, and the possibility of a shortage of home heating oil in the upcoming winter months, what successful compliance to these standards can mean in terms of additional available fuel and lessened hardships for the people of South Carolina cannot be overstated.

The foregoing discussion has concerned itself with **emergency measures,** steps to be taken in order to deal with a fuel shortage. These, however, are measures of **reaction** instead of **action.** The Office of Energy Resources points out that in South Carolina where there are no energy resources to speak of, it is especially important for citizens to begin individually and collectively to conserve energy. It also emphasizes the necessity of finding new sources of energy. It is this latter pursuit, in fact, that the Office of Energy Resources considers most important of all.

THE INDUSTRIAL CONSERVATION PROGRAM

The program most relevant to this readership is the Industrial Conservation Plan. Development of this plan is in the initial stages, but a starting point is under way with the Textile Industry Study.

Industry is clearly interested in achieving conservation in order to improve the profitability of its businesses and to reduce the risk of energy shortages. The textile industry, in particular, was targeted for a conservation program for several reasons. First, it is by far the largest employer in the state and the largest energy consumer. More importantly, a genuine willingness to cooperate and coordinate was evident among the members of this group.

The Textile Industry Study involves five major steps.

1. A brief review and revision, where necessary, of existing information on conservation options available to the textile industry. This effort will help to ensure that the "wheel is not being reinvented," and that comprehensive energy "checklists" will be developed.
2. Detailed energy studies of five representative textile plants in the state.
3. Implementation of the proposed conservation measures in the textile plants, and the accumulation of energy and economic data on the actual results of these measures.
4. Preparation of energy conservation "handbooks" for significant segments of the industry. These handbooks will include detailed information on the impact of energy variables on processes, alternative conservation measures, and the success of energy management programs.
5. Establishment of an ongoing technical assistance capability that will provide industry conservation seminars, information, and individual plant assistance. This effort will insure that maximum use is made of the information and skills developed in the first four steps of the program.

It should be noted that the Industrial Conservation Plan as proposed is designed to minimize any negative impact on the professional engineering firms in the state. On the contrary, this program may well provide a significant stimulus for firms by their involvement in seminars and follow-up work.

The technical assistance offered to industry beyond the five case studies above will be two to four man-days per plant — only sufficient for an overview and not the detailed studies necessary. However, the handbooks, energy methods, and case studies developed as a part of this program should be helpful to all of the industry, including professional engineers. It should be particularly helpful to smaller firms that do not have sufficient on-site personnel even to begin such an effort.

Large industries have both the capacity and the staff to deal effectively with their own energy plans and problems. It is the objective of the Office of Energy Resources, therefore, in developing an overall Industry Conservation Plan to reach small and intermediate-sized industries. This department would like to be able to identify the most common problems of these businesses and to assist in locating the expertise and technology necessary for solving them.

The agency also thinks it could be particularly helpful to all industry by providing a clearinghouse of all available information on conservation and technology — both public and private. In fact, it has already begun this process, and would like to call attention to a volume now available entitled **Energy Conservation Program Guide for Industry and Commerce.** This handbook was prepared as an energy tool, a guide to those in industry and commerce who are responsible for the use of energy in intermediate- to small-sized firms. While the emphasis may appear more oriented toward manufacturing, the ideas and much of the information included are equally applicable to commercial business.

Finally, in developing and managing its clearinghouse the Office of Energy Resources would like to collect and share any information that South Carolina industries may possess. Information on the successes and failures of some in handling energy problems could result in success and/or avoidance of failure for others. Whether that information is a specific technical fact, an idea to stimulate employee participation, an answer to a question on conservation, or a description of a successful energy conservation project, the agency solicits management's assistance.

The Governor's Office of Energy Resources would like to assure management that its purpose is to help, not to hinder; to confer, not to interfere. It advises the company or citizen who has an idea to contribute, a criticism to make, or a question to ask, to write or call:

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Voting on the Minimum Wage: The 1977 Experience

By Noel D. Uri*

On October 20, 1977, Congress gave final approval to legislation (HR-3744) raising the minimum wage in stages from $2.30 to $3.35 an hour by 1981. The increase—a top goal of labor and civil rights groups—was expected to boost the wages of nearly 5 million workers over this period. Though business groups hotly protested the higher costs, supporters considered the changes long overdue and an essential part of the nation's antipoverty efforts.

In reflecting on the increase, it is interesting to question what the important determinants of the final vote were. Subjectively, the impact of various special interest groups weighed heavily. Beyond this, a quantitative assessment of their impact would be useful. Further, there were a myriad of factors—both economic and political—that potentially operated to influence the ultimate outcome. An analysis of these factors is the objective of this article.

A METHODOLOGICAL CAVEAT

Before proceeding, it is important to realize that Congressional voting on a piece of legislation is not a simple, independent yes or no choice. It is dependent not only on economic and political factors, but also on votes on key amendments that will significantly alter the legislation.

To see this, consider the following. Assume, as is customarily done, that a representative has as his objective the maximization of constituent satisfaction with his performance. This, in turn, will maximize the probability of reelection. If it becomes apparent that a piece of legislation that is strongly beneficial to one subgroup of constituents (e.g., union members) is destined for passage, the representative, who otherwise is strongly supportive of another subgroup that will be adversely affected by the legislation's passage (e.g., small business), will vote in its favor while implicitly voting against it as amendments are introduced in an attempt to alter its characteristics. In this way the representative can point to his final vote when appealing to the first subgroup and to his votes on amendments when appealing to the latter subgroup. Consequently, any analysis of voting on the final minimum wage bills must take into account also voting on key amendments. (A detailed listing of the voting by the North Carolina and South Carolina delegations is given in the Appendix to this article.)

Finally, since the observations on the dependent variable are categorical rather than continuous, standard multiple regression analysis is not an appropriate empirical technique. Therefore, logit analysis is used in the investigation that follows.

CHARACTERISTICS OF 1977 LEGISLATION

Legislative considerations of the 1977 increases in the minimum wage focused on four separate issues:

1. Indexing — This amendment by Erlenborn (R-Ill.) proposed a substitution of three-step increases for the automatic adjustment for "indexing" procedures (which were more generous than the amendment). After an initial rise to $2.65 an hour in January 1978, the schedule set the minimum at $2.85 an hour in 1979 and $3.05 an hour in 1980. It was adopted 223-193 (to the dismay of labor and its allies).
2. Tip Credit — This amendment proposed by Quie (R-Minn.) would delete provisions

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*The views expressed in this article are those of the author and do not necessarily represent the policies of the Department of Energy or the views of other Department of Energy staff members.

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reducing the tip credit which would have required employers to pay a higher base wage to workers who earned tips. It was adopted 246-161.

3. Youth Differential — This amendment proposed by Cornell (D-Wisc.) would permit employers to pay only 85 percent of the minimum wage to young workers under age 18 during their first six months on the job. It was rejected by one vote, 210-211.
4. Small Business Exemption — This amendment introduced by Pickle (D-Texas) raised the dollar sales cutoff that exempted small retail and service enterprises from minimum wage and overtime requirements to $500,000 from $250,000. It was adopted 221-183.

After these considerations, the House and Senate versions differed. The minimum wage bill went to conference, and on October 20, 1977, the House voted on the conference report on the bill. The report recommended raising the minimum wage from $2.30 an hour to $2.65 on January 1, 1978; to $2.90 an hour on January 1, 1979; to $3.10 an hour on January 1, 1980; and to $3.35 an hour on January 1, 1981; and made a few other minor changes in wage and overtime coverage. The bill was adopted 236-187. On the previous day, the Senate had routinely approved by voice vote the conference report. The bill was sent to the President who in turn signed it.

From the preceding discussion, it can be seen that there was not just one important vote on the bill to increase the level of the minimum wage but rather there were five in the House of Representatives. Consequently, any analysis of the determinants of the votes must look at all of them.

FACTORS AFFECTING VOTING

In analyzing the factors affecting voting, it is important to identify impacts of the proposed legislation. In this regard, Uri and Mixon[1] in a recent paper have constructed a measure that assesses the effects of minimum wages on the distribution of changes in employment by state. Briefly, the measure of relevance here is what is nominally called the elasticity of projected employment. The elasticity of projected employment provides a quantitative estimate of the effect of changes in the minimum wage on projected employment where this latter term is considered as a measure of persistent or "normal" employment.

Functionally defined, the elasticity of projected employment is simply the percentage response of projected employment to a change in the minimum wage where projected employment is practically defined to be an extrapolation of the past employment level and is considered as a measure of persistent or normal employment. To a competitive, profit maximizing firm, a minimum wage law precludes hiring workers whose productivity is below the minimum wage. Barring large discrepancies across states in demand for workers, unemployment effects would be expected to be greatest for those states whose workers otherwise earn the lowest wage. The empirical results show that, consistent with a priori expectation, the unemployment effects of changes in the level of the minimum wage are greatest in those states whose workers otherwise earn the lowest wage.

What is to be the expected impact of the elasticity of projected employment on the vote? Workers, in the aggregate, with wages below the proposed minimum may either benefit or lose. If the minimum wage is established above the market rate, employment will decrease, but wages for those still employed will rise. As the minimum wage rises relative to the market rate, however, more and more labor units will find it in their interests to oppose such an increase in the minimum wage. The higher the minimum wage relative to the market rate, the lower the ratio of those who are hurt and, consequently, the less the influence of those who benefit.[2] The impact will depend on the ratio of the income effect to the unemployment effect.

It appears that the employment effect is stronger than the income effect. For example, several recent studies have concluded that the minimum wage has a particularly adverse effect on employment of young people under age 18 and has contributed to a rise in the teenage unemployment rate. A legal minimum wage, further, is detrimental to teenage workers because of their low productivity arising from limited training and education. The realization of this fact is reflected in the closeness of the vote on the amendment to provide a youth differential. It was decided only when House Speaker O'Neill cast the deciding vote against the provision.

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[1] N.D. Uri and J.W. Mixon, "The Effects of Minimum Wages on the Distribution of Changes in Regional Employment," **Environment and Planning**, forthcoming.

[2] F.G. Steindl, "The Appeal of Minimum Wage Laws and the Invisible Hand in Government," **Public Choice** 14 (Winter 1974): 133-36.

Black workers are, like teenagers, affected by the minimum wage. Burns,[3] for example, has shown that an increase of 25 cents in the legal minimum wage is associated with a rise of 8 percent in Black unemployment.

These impacts suggest that there should be a positive relationship between voting on amendments to weaken minimum wage increases and the elasticity of projected employment, while there should be a negative relationship between the final vote and the elasticity. The substance of this discussion is not meant to imply solely that income effects to the employed workers must be less than the unemployment effects to the disemployed workers. For example, teenage workers are likely politically weak. If unemployment is concentrated among young workers who are not contributing a large percentage of household income, while the income effect is concentrated among heads of households, then the political impact of the income effect may exceed the unemployment effect, regardless of the absolute magnitude of the unemployment effect. The political cost of disemploying youths can be expected to differ from disemploying adults. Therefore, given that the elasticity of projected employment cannot capture all aspects of such age differences, a variable to reflect this explicitly is potentially important. In this instance, the proxy variable for teenage workers is defined as the percentage of the total population that is between 16 and 21 years of age.

A sequence of positive/negative relationships between voting and this youth variable can be anticipated analogous to that expected on the elasticity of projected employment. Other demographic differences are potentially important (separate from their inclusion in the elasticity of the projected employment variable). In particular, Black workers tend to be over-represented among low-wage workers. In an argument similar to that suggesting the inclusion of a youth variable, the number of Black workers in the labor force or their proportion of the total work force might be expected to be a significant explanatory variable. Preliminary analysis, however, did not show this to be the case.

The impact of the minimum wage is uneven. It affects labor-intensive, low-wage manufacturing industries (e.g., furniture, leather, and apparels) more heavily. The effects on such industries include not only the wage impact but also shifts of industrial location.[4] It might be expected that legislators from more stable areas would support the minimum wage as a device to reduce the tendency of industrial employment shifts from their own relatively high-wage area to relatively lower-wage states. To reflect this, a variable defined to be the proportion of the manufacturing labor force employed in low-wage industries is included. Correspondingly, votes on amendments to the minimum wage bill should not be supported.

Another potentially important determinant of voting is the strength of labor unions. Unions may support the minimum wage in an attempt to bid up the price for substitutes of skilled labor. Additionally, much of the pressure for continued increases in the minimum wage comes from unions that have succeeded in organizing plants in the North but have not been equally successful in other areas of the country. An effective tool for bringing pressure on the wage level in these regions and sheltering union members from low-wage competition is the minimum wage. The successive minimum wage increases under the Fair Labor Standards Act probably has raised common labor rates in low-wage states faster than they would have risen otherwise, applying some pressure also on rates above the minimum. Thus, union influence in those areas has been exerted mainly through legislative pressure rather than through collective bargaining. As a result of these considerations, an inverse relationship between the amendment votes and union strength and a direct relationship on the final vote could be anticipated.

Party membership might be significant, given that minimum wage legislation is ostensibly a partisan issue. Danielson and Rubin[5] have previously demonstrated that party affiliation is an important variable affecting voting on economic issues. In representing this, a qualitative variable was defined to equal one for a Democrat and zero for a Republican.

Since the minimum wage adversely affects many small businesses, particularly the retail and service industry sectors, by raising the cost of labor, some account should be taken of their potential impact on voting. In addition to the direct impact of an increase in the minimum wage on labor costs, a secondary impact on income might be expected. That is, small businesses as consumers are likely to be near average earnings which are significantly above any proposed minimum. Since the prices of the goods and services they buy are increased following minimum wage increases, their real income is reduced.

---

[3] A.F. Burns, **The Management of Prosperity** (New York: Columbia University Press, 1966).

[4] M.F. Colberg, "Human Capital as a Southern Resource," **Southern Economic Journal** 29 (January 1963): 157-65.

[5] A.L. Danielson and P.H. Rubin, "An Empirical Investigation of Voting on Energy Issues," **Public Choice** (Fall 1977): 121-28.

The variable used to measure the influence of small businesses on voting was the number of workers in retail and service establishments with 19 or fewer employees relative to the total number of employees. If some differential political power on the part of small businesses exists, then it should be adequately reflected in this variable.

A final variable of likely importance is the current unemployment rate in a given state. As noted above, there is a trade-off between the employment and income effects. There are indications, however, that the employment effect weighs most heavily upon the minds of representatives in those states with especially high unemployment rates. As Browning[6] has shown, since the late 1960's there has been a substantial increase in transfers to low-income persons, particularly in terms of income in kind. Thus, the marginal gain in terms of income of those who benefit by the increase in the level of the minimum wage is not as great as in earlier periods. There is no reason to believe, however, that the loss in terms of employment has been mitigated in any sense. Thus, from the social perspective, if unemployment considerations are more important than income considerations, a significant positive relationship should be observed between the vote on the four amendments and the level of unemployment, while a negative correlation should exist between the final vote and unemployment.

The substance of the discussion in this section then is that voting on each of the amendments and the final bill is potentially a function of the variables enumerated above. The extent to which this is true is the subject of the following section.

A DISCUSSION OF THE EMPIRICAL RESULTS

Using the technique and variables previously detailed, empirical estimates of the coefficients were obtained. For sake of brevity they are not reported here but are available from the author upon request.

In each of the equations, the coefficients have the anticipated sign and are significantly different from zero at the 95 percent level with the exception of the coefficient on the small business variable on the vote for amendment one, the coefficient on proportion of teenage workers in the labor force on the vote for amendment two, and the coefficient on the proportion of workers in low-wage industry on the vote for amendment two. (An examination of the correlation matrix as well as the overall significance of the equations reveal that multicollinearity does not appear to be a serious statistical problem. The absolute value of the pairwise correlation coefficients never exceeds 0.38.)

The coefficients on the elasticity of permanent employment are consistently positive on the amendment votes and negative on the final vote to increase the minimum wage. The coefficients on the small business influence variable, on the youth variable, and on the unemployment variable exhibited a similar pattern. The coefficients on the remaining variables demonstrated the reverse sign pattern as predicted.

Aside from the anticipated sign pattern of the coefficients, another interesting phenomenon appears. As previously suggested, many legislators voted in favor of weakening the final bill through its amendments even though they supported (voted yes) the final version. The amendments tend to target benefits much more clearly on particular groups than does the composite bill. Therefore, it is instructive to examine the magnitude of the coefficients on the relevant exogenous variable when an amendment was voted on vis-à-vis the coefficient on the same variable on the final vote. For example, amendment four (the small business exemption) was designed to benefit small businesses. In this instance, a significantly greater (in the statistical sense) effect of the small business variable was observed in predicting the vote on amendment four than in predicting votes on the other three amendments and the final vote. The magnitude of the coefficient on the small business variable for the vote on amendment two (the tip credit) is also fairly sizeable. This is to be expected since the variable is reflecting the influence of restaurant and hotel owners in trying to reduce the minimum wage for their employees.

A similar pattern of influence can be observed on the vote on the first amendment (indexing). This vote was of critical importance to labor who had drafted it after months of negotiation with the Carter administration and the House leadership. The coefficient on the union variable for the vote on amendment three is likewise large. The notion of a "subminimum" wage for youth has long been an anathema to unions as a symbol of worker exploitation.

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[6] E.K. Browning, **Redistribution and the Welfare System** (Washington, D.C.: American Enterprise Institute, 1975).

CONCLUSION

The determinants of voting on the 1977 increase in the minimum wage level in the House of Representatives have been analyzed. It is suggested in the analysis that it is not sufficient simply to explain the observed behavior on the final vote. Rather, because a representative is endeavoring to appeal to several subgroups of his constituency simultaneously, the vote on an amendment might appear inconsistent with the final vote while in fact it is entirely logical. The empirical analysis of the voting behavior on the final minimum bill and four key amendments strongly supports this hypothesis.

APPENDIX

To give an explicit indication of how the representatives from North Carolina and South Carolina voted on the four amendments and the final bill, the table below lists the amendment number (one through four in the same sequence as previously) and the final bill. Note that a "yes" is denoted by Y, a "no" by N, and "did not vote" by a question mark.

TABLE. Voting on the Minimum Wage

Representative	(1)	(2)	(3)	(4)	Final
A. North Carolina					
1. Jones	Y	Y	Y	Y	Y
2. Fountain	Y	Y	Y	Y	Y
3. Whitley	Y	Y	N	Y	Y
4. Andrews	Y	Y	N	Y	Y
5. Neal	Y	Y	Y	Y	Y
6. Preyer	Y	Y	N	N	Y
7. Rose	Y	Y	N	N	Y
8. Hefner	Y	Y	Y	Y	Y
9. Martin	Y	Y	Y	Y	N
10. Broyhill	Y	Y	Y	Y	Y
11. Gudger	Y	Y	N	Y	Y
B. South Carolina					
1. Davis	Y	Y	N	N	N
2. Spence	Y	Y	Y	Y	N
3. Derrick	Y	Y	N	Y	Y
4. Mann	Y	Y	N	Y	N
5. Holland	Y	Y	Y	Y	N
6. Jenrette	?	Y	N	Y	Y

USC College of Business Administration Update: Foundation Fellows Named

By Virginia Ann Van Seters

In September 1977, The University of South Carolina-Business Partnership Foundation established the Foundation Fellows Program to recognize scholarship and academic contributions of members of the faculty of the USC College of Business Administration. More specifically, this program supplies salary supplements that enable the College of Business Administration to recognize truly outstanding members of its faculty with respect to their proven leadership and scholarship and their potential ability to lead the College of Business Administration in qualitative advancement. It is both a reward system for past performance, and a recognition program for continuing and potential excellence.

Miss Virginia Ann Van Seters is Associate Editor for the Division of Research, Editor of the Faculty-Staff Newsletter, and Sponsor of the Student Newsletter in the College of Business Administration, The University of South Carolina. An honor graduate of USC's College of Journalism, Miss Van Seters has won numerous professional awards. Prior to joining the staff of the College of Business Administration, she also worked in legislative reporting and public relations.

Any member of the faculty of the USC College of Business Administration is eligible to be considered for appointment as a Foundation Fellow. Recommendations for appointment are submitted by the Dean of the College to the Faculty Development Committee of the Board of Trustees of the Business Partnership Foundation. The committee members then make their selections and submit them to the full Board of Trustees for their approval or disapproval. The appointments are for two years, and are renewable at the discretion of the Trustees.

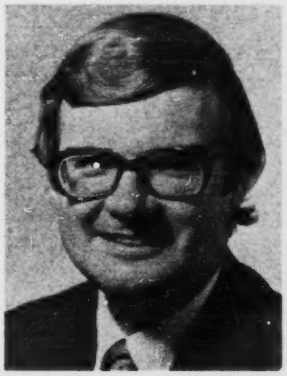
In the December 1977 issue of this publication the Foundation Trustees announced that Dr. Ronald M. Copeland, Dr. J. Stanley Fryer, and Dr. Arch G. Woodside had been selected for the original three appointments for academic years 1977-'79. In the November 1978 issue, it was reported that Dr. James L. Cochrane and Dr. S. Travis Pritchett had been named for academic years 1978-'80. In this latest issue of the **Business and Economic Review,** the Members of the Foundation Board of Trustees are very pleased to announce that (1) Drs. Copeland, Fryer, and Woodside's original appointments have been renewed, and (2) two additional Foundation Fellows have been added to this distinguished list for academic years 1979-'81. They are Dr. James B. Edwards and Dr. William H. Mobley. Brief sketches of Drs. Edwards and Mobley follow, in alphabetical order.

Dr. James B. Edwards, 44, Professor of Accounting, Director of the Professional Accounting Program, and C.P.A., C.M.A., C.I.A., and C.D.P. A member of the faculty of the College of Business Administration at The University of South Carolina since 1971, Dr. Edwards has also served on the faculties of David Lipscomb College, the University of Tennessee, and the University of Georgia. He is a former Controller of Better Maid Dairy Products, Inc., a Semi-Senior Accountant with Max M. Cuba & Co. CPA's, Partner with Wilson, Edwards and Swang CPA's, and Partner with Q. F. Lester & Company CPA's.

Listed in **Who's Who in the South and Southwest,** Dr. Edwards earned B.B.A., M.B.A., and Ph.D. Degrees in Accounting at the University of Georgia in 1958, 1962, and 1971, respectively. The Founding President of the South Carolina Association of Accounting Instructors, he is also a very active member/officer of the American Institute of Certified Public Accountants, the American Accounting Association, the National Association of Accountants, the Planning Executives Institute, the Institute of Internal Auditors, the Data Processing Management Association, and the American Institute of Decision Sciences. A specialist in A.I.C.P.A. tax courses, he has organized and taught a number of professional development programs for the National Association of Accountants, including the first C.M.A. review course in the United States.

The winner of six national writing awards, Dr. Edwards is coauthor of the six-volume **Certificate in Management Accounting Review,** and the author or coauthor of 48 articles in such journals as **The National Public Accountant, The Accounting Review, Management Accounting, Managerial Planning, The Internal Auditor, Data Management,** the **Management Adviser,** and **The Georgia C.P.A.** He has also presented numerous professional papers at national meetings.

Dr. Edwards is currently serving as Chairman of the USC Welfare Committee, as Faculty Representative to the Board of Trustees; Subcommittee on Academic Affairs and Faculty Liaison, and as a member of the USC Faculty Steering Committee. He has also served in the USC Faculty Senate and on a number of other USC and BA committees.



Dr. William H. Mobley, 38, Professor of Management and Organizational Behavior and Licensed Industrial Psychologist in the states of Pennsylvania and South Carolina. A 1978 Fulbright-Hays Scholar to the Republic of China, Dr. Mobley worked with PPG Industries, Inc. in Pittsburgh before coming to USC in 1973.

The recipient of six research grants, he graduated with a B.A. Degree in Psychology from Denison University in 1963 and an M.A. Degree in General Psychology and a Ph.D. Degree in Industrial-Social Psychology from the University of Maryland in 1970 and 1971, respectively. A Proctor and Gamble Scholar at Denison and an NDEA Fellow at the University of Maryland, Dr. Mobley received the "Outstanding Dissertation Award" of the American Psychological Association for his dissertation research on motivation.

A member of the American and Southeastern Psychological Associations, the American Society for Personnel Administration, the Academy of Management, the International Association for Cross Cultural Psychology, the Southern Management Association, and the South Carolina Psychological Association, he is also a member of the

South Carolina Board of Examiners in Psychology and the Board of Editors of the **Journal of Management,** an Editorial Reviewer for the **Journal of Applied Psychology,** and the **Journal of Business Research,** and a Book Reviewer for **Personnel Psychology.** He is the author or coauthor of 10 technical reports, 3 book chapters, and over 30 articles and professional papers published in the **Journal of Applied Psychology, Personnel Psychology,** the **Personnel Journal, The Personnel Administrator,** the **Academy of Management Journal, Personnel,** the **Human Factors Journal,** and the **Psychological Bulletin,** among others, and/or presented at national and regional meetings of the American, Southeastern, and Pennsylvania Psychological Associations; the American Management Association; the Eastern Academy of Management; the Management Compensation Society; the National Safety Council; the Southeastern American Institute of Decision Sciences; the American Compensation Association; the National Association of Management Educators; the Department of Defense Conference on Military Attrition; the Financial Management Institute; the Works in America Institute; the National Taiwan University Colloquium Series; the Taiwan Psychological Association; and the International Association for Cross Cultural Psychology.

Dr. Mobley is on the Program Committee of the Division of Industrial-Organizational Psychology and a member of the Committee on State Affairs for Division 14, American Psychological Association; Faculty Advisor for the USC student chapter of the American Society for Personnel Administration; an immediate past member of the Committee on Legal Issues for Division 14, American Psychological Association; and former Chairman of the Southeastern Industrial-Organizational Psychologists Association and the Personnel Research Certification Committee for the American Society of Personnel Administration. He has also served as an Expert Witness on employment practices, employment statistics, and promotion practices in multiple Federal Court cases; and has developed, organized, and/or participated in 27 Continuing Education Programs for the USC College of Business Administration.

The Management Bookshelf

By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

The Management Bookshelf is a service to our readers provided by the Elliott White Springs Library of the College of Business Administration of The University of South Carolina.

SMALL BUSINESS MANAGEMENT: A PRACTICAL APPROACH

by Paul Harmon
Van Nostrand Co.
135 W. 50th St.
New York, NY 10020
1979, 362 pp., $14.95

This book covers all phases of establishing and running a small business, from choosing a location to paying the taxes. The author, a small business manager himself, illustrates his work with numerous case histories.

IN DEFENSE OF THE CORPORATION

by Robert Hessen
Hoover Institute Press
Stanford University
Stanford, CA 94305
1979, 133 pp., $7.95

The author presents a defense of the legitimacy of the corporate form in response to the attacks of such critics as Ralph Nader. In constructing his defense the author explores the theoretical nature of the corporation and through his scholarly research exposes the errors in the critics' position.

* * *

Readers are invited to submit titles of books that they wish to call to the attention of others.

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STATISTICAL INDICATORS OF SOUTH CAROLINA BUSINESS

ITEMS	July 1979	July 1978	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 2,994	$ 2,772	+ 8.0
Demand	1,618	1,539	+ 5.1
Time	1,370	1,228	+11.6
Loans, Member Banks ($ millions)	2,077	2,118	- 1.9
Savings in Savings and Loan Associations ($ millions)	4,961	4,533	+ 9.4
Sales and Use Tax Collections ($ thousands)	56,946.4	51,550.5	+10.5
Labor Market:			
Civilian Labor Force (thousands)	1,344.0	1,375.2	- 2.3
Employment	1,278.2	1,310.4	- 2.5
Rate of Unemployment (percentage)	4.9	4.7	+ 4.3
Nonfarm Wage and Salary Employment (in thousands)	1,165.2	1,114.1	+ 4.6
Manufacturing	391.3	731.1	-46.5
Contract Construction	68.5	74.3	- 7.8
Transportation and Public Utilities	52.3	49.2	+ 6.3
Wholesale and Retail Trade	226.0	210.1	+ 7.6
Finance, Insurance, and Real Estate	47.1	44.6	+ 5.6
Services, Mining, and Miscellaneous	163.8	142.6	+14.9
Government	216.2	208.4	+ 3.7
Average Hourly Earnings, All Manufacturing (in dollars)	$ 5.08	$ 4.72	+ 7.6
Initial Unemployment Claims Filed in South Carolina	19,746	24,328	-18.8
Placements by South Carolina Employment Offices (nonagricultural)	6,628	8,477	-21.8
Indexes of Prices Received by Farmers (1966-68=100)			
All Farm Products	210	193	+ 8.8
All Crops	227	208	+ 9.1
Livestock and Products	209	193	+ 8.3
S.C. Parity Ratio	85	88	- 3.4
New Motor Vehicle Registrations			
Cars	10,460	11,783	-11.2
Trucks	3,112	3,667	-15.1

	July 1979	July 1978	First 7 Months 1979	First 7 Months 1978	Percentage Change
Valuation of Building Permits Issued ($ thousands)					
Total for all S.C. Counties	$152,561	$107,994	$1,072,216	$816,915	+31.3
Available County Data					
Aiken	5,332	2,172	38,800	32,802	+18.3
Berkeley	4,026	6,113	29,896	43,082	-30.6
Charleston	12,239	8,563	126,881	77,322	+64.1
Dorchester	4,336	1,948	32,939	21,739	+51.5
Lexington	6,533	5,078	55,403	37,485	+47.8
Richland	21,630	9,496	83,041	47,134	+76.2
Greenville	15,108	12,639	121,264	83,895	+44.5
Pickens	2,712	3,120	22,663	18,812	+20.5
Spartanburg	7,209	6,470	70,365	55,623	+26.5

*Less than one-half of 1 percent.

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SOUTH CAROLINA CREDIT UNION LEAGUE
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Volume XXVI, Number 3
December-January 1980

"Credit Union Growth:
A Movement Becomes an Industry"
by Olin S. Pugh

"The Employer and Employment Laws"
by James J. Baldwin

"Bottom Lines"
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"Economic Uncertainties in the Year Ahead"
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16 **The Employer and Employment Laws,** a regular feature by James J. Baldwin, Partner in the law firm of Haynsworth, Baldwin and Miles. In his latest column, **Union Damage Suits to Intimidate Community Officials: A New Weapon in the War to Unionize Southern Workers,** Baldwin talks about union damage suits to intimidate community officials, and describes how this new tactic is being used as a weapon to unionize Southern workers.

18 **Bottom Lines,** a regular feature by Dr. James B. Edwards, Professor of Accounting and expert consultant to management. In this issue, Dr. Edwards describes proper uses of tax strategies to help protect you and your business from unnecessary taxes. He emphasizes the matter of tax-timing to alert you to become aware that you do need to put your tax picture in focus.

20 **Economic Uncertainties in the Year Ahead.** Dr. James A. Morris, Distinguished Professor Emeritus (Economics) of USC and a private Economic Consultant, takes a look at the economic uncertainties in the year ahead and evaluates the course of the economy.

31 **The Management Bookshelf,** a regular feature in which Dwight Gardner, USC BA's Business Librarian, reviews books of interest to business practitioners.

32 **Statistical Indicators of South Carolina Business.** A regular feature, listing the latest available data.

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Articles submitted for consideration for publication should concern business and economics topics of interest to managers in the private or public sectors. All manuscripts should be 12-26 double-spaced, typewritten pages, in English. Graphs, mathematical and quantitative data, charts, and tables are acceptable. Authors should submit 2 copies of each manuscript plus a vita sheet and a photograph. Upon publication, 6 complimentary copies of the journal are sent to the authors, with additional copies available upon request. Manuscripts to be considered for publication should be sent to: James M. Black, Editor, **Business and Economic Review,** College of Business Administration, The University of South Carolina, Columbia, S.C. 29208.

Published in Oct., Nov., Dec., March, April, and May by The University of South Carolina as a service for those interested in business and economic matters.

This month's cover: The South Carolina Credit Union League and Central Credit Union office complex, Columbia, South Carolina. See "Credit Union Growth: A Movement Becomes an Industry" on page 3 of this issue.

Credit Union Growth: A Movement Becomes An Industry

By Olin S. Pugh

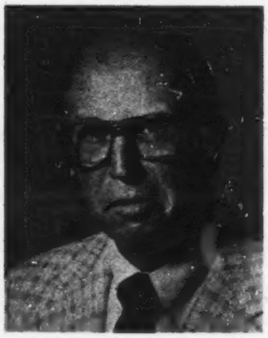
Credit unions now have 40 million members in the United States and more than 450,000 members in South Carolina. Total assets at the national level exceed $62 billion and approach $600 million in the state. What has been thought of as a small, cooperative credit movement operating with largely volunteer committee workers has evolved into a significant financial industry. This survey article attempts to trace the recent history of credit unions in South Carolina as a part of their growth in the United States.

NATURE AND ORIGIN OF CREDIT UNIONS

Credit unions are nonprofit cooperatives designed to provide basic financial services to their members. These associations sell shares and make loans available to memberships that are presumed to have common bonds of employment or other economic or neighborhood interests. The "common bond of interest" has been interpreted less rigorously in recent years, thereby opening up membership to many individuals who would not have been eligible in a previous generation.

The credit union movement can be traced back to the latter part of the nineteenth century to credit cooperatives in Germany that spread into Canada and other countries. Edward Filene, a Boston merchant, and Pierre Jay, Banking Commissioner of Massachusetts, were instrumental in the organization of the first credit union in the U.S. in 1908.[1] Until 1921, the credit unions were confined to the urban working class groups of New England, and largely involved the workers in the industrial plants. By 1934, credit union laws had been adopted by most states. Congress enacted the Federal Credit Union Act, which enabled credit unions to be established in any state and provided for the creation of a Credit Union National Association. In large measure, the credit union movement was an outgrowth of depression in the United States and elsewhere, and was designed to provide credit to the working classes at reasonable rates. World War II, however, halted the growth of credit unions and a renewed impetus was not realized until the late 1940's. It has only been over the last two decades or so that the industry has begun a growth pattern that has culminated in the position that is currently receiving so much attention in the financial community.

Credit unions now provide Federally-insured savings, share draft services and credit cards in certain locales, payroll withholdings for both savings and loan repayments, and relatively low-interest rate consumer loans. With low administrative costs and no tax liability, the typical credit union can provide credit services and reward its savers at rates that are more attractive than those of established financial intermediaries.



Dr. Olin S. Pugh is Holder of the Chair of Banking and Professor of Banking and Finance in the College of Business Administration at The University of South Carolina. He earned his Ph.D. Degree in Economics from Duke. A past President of the Southern Finance Association, he is the author of numerous publications in the area of banking and finance, has served as a consultant to various banks, and has played an active role in the South Carolina Bankers School.

EARLY HISTORY OF CREDIT UNIONS IN SOUTH CAROLINA

South Carolina passed a credit union law in 1915, but it was largely ineffective. In 1923, Act 51 made basic amendments to the state's credit union law and gave broad authority and greater flexibility to the credit union movement.[2] The first

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[1] J. Carroll Moody and Gilbert C. Fite, **The Credit Union Movement, Origins and Development 1850-1970** (Lincoln: University of Nebraska Press, 1971).

[2] Alvin Hook, "Development of Credit Unions in South Carolina, 1950-1963" (Master's thesis, The University of South Carolina, 1965).

TABLE 1. Summary of Credit Union Membership and Financial Activities in the United States, 1950-'78

Year-End	Number of Credit Unions	Number of Members	Total Savings ($ millions)	Total Loans Outstanding ($ millions)	Total Assets ($ millions)
1950	10,591	4,610,278	$ 850	$ 680	$ 1,005
1955	16,201	8,153,641	2,447	1,934	2,743
1960	20,456	12,037,533	4,975	4,377	5,653
1965	22,119	16,753,106	9,249	8,095	10,552
1966	22,686	17,897,351	10,106	9,093	11,606
1967	23,049	19,070,072	11,126	9,877	12,775
1968	23,406	20,264,487	12,324	11,284	14,210
1969	23,876	21,591,369	13,699	12,956	15,900
1970	23,699	22,797,193	15,492	14,108	17,960
1971	23,284	24,094,257	18,367	16,164	21,134
1972	23,115	25,753,543	21,628	18,675	24,533
1973	22,999	27,488,416	24,699	21,971	28,418
1974	22,964	29,502,615	27,566	24,434	31,953
1975	22,703	31,151,763	33,116	28,218	37,937
1976	22,615	33,760,396	39,150	34,280	45,013
1977	22,407	36,860,406	46,740	41,907	54,182
1978	21,935	40,289,198	52,592	50,636	62,631

Source: Credit Union National Association, **Yearbooks.**

credit union in South Carolina was opened in 1922, but the movement developed very slowly. By 1930, there were only 6 operating in the state and by 1939, only 33. The number grew until 1943, reaching 62 at that time, but dropped precipitously thereafter during World War II, and declined to 27 by 1948. The level of financial activity remained very low during these formative years. Total loans outstanding of all associations was below $200,000 in 1939 and was still below $700,000 in 1949.

State-chartered credit unions were moved from under the Board of Bank Control in 1952 to the South Carolina Department of Labor where they remained until 1960. At this time they were returned to the jurisdiction of the Board of Bank Control. Most of the credit unions operating in the state were Federally chartered, however. In 1960, for example, 74 of the 102 credit unions in South Carolina operated under a Federal charter. Today, both Federal and state-chartered associations still operate in the state, with the Federally chartered ones tending to dominate the industry. There were 155 Federal credit unions and 43 state credit unions operating at mid-1978 in South Carolina.[3]

GENERAL GROWTH OF CREDIT UNIONS IN SOUTH CAROLINA AND THE UNITED STATES, 1950-'78

Credit unions had to await the growth of worker incomes and the widespread development of consumer credit before they could take on a role of significance in the economy. This was particularly true in South Carolina, as the accompanying data demonstrate. With rising levels of consumer income and consumer credit in the 1960's and 1970's, however, and the popularity of saving through financial intermediaries, credit unions have grown very rapidly during the last two decades. The overall support of Congress and Federal regulatory authorities has also been a contributing factor to their growth.

As shown in Tables 1 and 2, the number of credit unions in the United States almost doubled between 1950 and 1960, rising from 10,591 to 20,456. The advance in numbers was even more rapid in South Carolina during the decade, rising from 31 in 1950 to 102 in 1960. Perhaps of even greater interest than the actual number of associations, however, is the growth in memberships, savings, and loans outstanding.

Membership in credit unions in the United States grew from 4.6 million in 1950 to 12.0 million

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[3] **Seventy-Second Annual Report of the State Banking Department of the State of South Carolina** (August 1978).

TABLE 2. Summary of Credit Union Membership and Financial Activities in South Carolina, 1950-'78

Year-End	Number of Credit Unions	Number of Members	Total Savings ($ millions)	Total Loans Outstanding ($ millions)	Total Assets ($ millions)
1950	31	10,949	$ 1.1	$ 1.0	$ 1.4
1951	34	13,846	1.5	1.2	1.8
1952	40	18,078	2.0	1.7	2.7
1953	46	18,134	2.4	2.2	3.2
1954	53	20,102	3.7	3.2	3.9
1955	59	22,428	4.6	3.7	5.0
1956	60	26,425	5.6	4.6	6.3
1957	68	33,391	6.9	6.4	8.0
1958	75	35,561	7.7	6.7	8.7
1959	88	40,716	9.6	8.7	10.8
1960	102	56,000	11.6	11.7	13.6
1961	112	62,927	14.0	13.6	16.5
1962	121	84,924	22.9	21.9	25.7
1963	124	93,848	30.3	29.1	34.9
1964	129	100,602	37.1	35.2	42.0
1965	137	112,852	45.0	43.2	50.9
1966	151	129,641	54.5	53.1	62.6
1967	161	147,162	65.5	63.2	75.1
1968	176	165,410	77.2	75.6	89.9
1969	181	181,395	92.8	92.2	107.4
1970	183	196,839	111.2	105.7	130.6
1971	179	211,604	138.2	133.0	161.7
1972	180	223,326	173.1	163.1	201.1
1973	178	237,829	203.9	194.3	239.7
1974	185	258,797	242.2	221.2	277.2
1975	191	298,199	297.3	268.3	334.0
1976	194	357,602	362.1	350.2	413.6
1977	194	412,904	438.9	443.9	509.4
1978	202	460,677	501.4	479.5	572.3

Source: S.C. Credit Union League, **Yearbooks.**

in 1960. While this rate of growth is noteworthy, South Carolina's credit union membership advanced much more rapidly, jumping from 10,949 in 1950 to 56,000 in 1960. Total savings held by all credit unions in the United States was below $1 billion in 1950, and grew to approximately $5 billion by 1960.

In South Carolina, total savings amounted to only $1 million in 1950 while advancing to more than $11 million in 1960.

Total assets and loans outstanding at credit unions quite naturally follow the same pattern as those institutions' total savings. Total assets of credit unions in the nation moved from $1.0 billion to $5.6 billion between 1950 and 1960; in the state, total assets grew from $1.4 million to $13.6 million. Since the base numbers of credit unions were so low in 1950, it does not seem fruitful to present differentials in rates of growth during the 1950's.

During the decade of the 1960's the number of credit unions active in the United States remained in the 22,000-23,000 range. In South Carolina the number of credit unions rose from 102 at year-end 1960 to 183 by the end of 1970. Membership in credit unions marched ahead still more rapidly in the state, rising from 56,000 in 1960 to 196,839 in 1970, or 252 percent. In the United States, credit union membership increased from 12 million in 1960 to 22.8 million in 1970, or 89 percent. Thus the rate of growth of membership in South Carolina was almost three-fold that of the nation during the decade.

Even more dramatic changes occurred in credit union financial statistics during the 1960-'70 period. Total savings held by credit unions in the country grew from $4.9 billion to $15.5 billion, or 211 percent. In South Carolina, savings growth was more dramatic, jumping from $11.6 million to $111.2 million, or 859 percent in 10 years. In all other financial aggregates the state's increase also exceeded changes at the national level. For example, loans outstanding in the U.S. rose from $4.4 billion to $14.1 billion, or 222 percent. In South Carolina, loans outstanding increased from $11.7 million to $105.7 million, or 803 percent. Total asset growth of credit unions in the United States was 217 percent and in South Carolina, 860 percent. The dynamism of the credit union movement in South Carolina throughout the 1960's as measured by such percentages may again be explained partially by the relatively late start of the industry in the state and its low financial base in 1960. While this is a part of the explanation, the overall growth of the state's economy during the decade should not be ignored. In explaining the continuation of a pattern of rapid growth in the state's credit union industry in the 1970's, it may be necessary to consider still other factors.

Although the number of credit unions declined slightly in the United States between 1970 and 1978, it increased somewhat in South Carolina, rising from 183 in 1970 to 202 in 1978. Membership did continue to grow quite rapidly, however. At the national level, membership moved from 22.8 million to 40.3 million, or 77 percent. In South Carolina, membership grew from over 196,000 to nearly 461,000, or 134 percent. On the national level, this means that about 18 percent of all people of all ages are credit union members. In South Carolina, credit union membership represents about 16 percent of all residents. Among the adult and working groups, the membership percentages are far greater, of course.

Total savings in the credit union industry of the nation more than trebled between 1970 and 1978, moving from $15.5 billion to $52.6 billion, or 240 percent. In South Carolina, the savings growth was even more dramatic, rising from $111.2 million to $501.4 million, or 351 percent. Total loans outstanding and total assets moved ahead at approximately the same pace as total savings in the credit union industry. At the national level, total assets moved from a position of $17.9 billion in 1970 to $62.6 billion in 1978, or an increase of 249 percent. In South Carolina, total assets advanced from $130.6 million to $572.3 million, or 338 percent.

These are truly rapid rates of growth for any industry. No other established financial intermediary experienced such favorable gains during these years. Some comment on the rates of change among the major competitive financial intermediaries may demonstrate the point most effectively.

COMMERCIAL BANK GROWTH, 1950-'78

Commercial banking remains the mainstay of financial institutions in the state and nation, and has experienced significant rates of growth over the period. Despite the very rapid growth experienced by credit unions and savings and loan associations, commercial banks remain in a dominant position. Through the years, however, the degree of dominance, or the share of the market held by banks, has declined.

In making direct comparisons of banks with credit unions over the past several decades, it may be more fruitful to look at total time and savings accounts held by banks since credit union savings shares have been considered as being competitive with the "passbook" type savings accounts held by banks. Checking accounts, or demand deposits, have been held in large measure for transactions purposes rather than household savings.

In Table 3 it may be seen that while both demand and time deposits of banks have grown quite rapidly over the years, time deposits have outstripped demand deposits, particularly in more recent years. Between 1950 and 1960, demand deposits in the United States grew from $117 billion to $156 billion, or 33 percent. In South Carolina, demand deposits grew from $575 million to $820 million, or 43 percent. Time and savings deposits in the United States advanced from $36.5 billion to $73.3 billion, or 101 percent. In South Carolina, these deposits moved fairly slowly, going from $87 million to $202 million, or 131 percent. Total deposits during the 1950's increased 49 percent in the United States and 54 percent in South Carolina.

Commercial bank changes in the 1960's were more significant than in the earlier decade. For the United States, total demand deposits grew from $155.7 billion to $247.2 billion, or 59 percent. Demand deposits in South Carolina grew much more rapidly, rising from $820 million to $1,602 million, or 95 percent. In the real growth area of banking, the time and savings sector, United States banks advanced from $73.3 billion in 1960 to $235.3 billion, or 221 percent. In South Carolina banking, time deposits jumped from a still low $202 million to $817 million for an advance of 304 percent. Total deposits during the decade increased 111 percent in the United States and 137 percent in South Carolina.

Commercial banking continued its growth in the 1970's, but at a somewhat slower pace in dollar terms. For all banks in the United States, demand deposits moved from $247.2 billion in 1970 to $400.3 billion in 1978, or 62 percent. Time deposits advanced from $235.3 billion to $616.1 billion, or 161 percent in the United States. In South Carolina, demand deposits expanded from $1,602 million to $2,791 million, or 74 percent, while time deposits jumped from $817 million to $2,486 million, or 205 percent. For total deposits, United States growth between 1970 and 1978 was 110 percent, and South Carolina growth was 118 percent. While these are impressive growth data for the banks, they do lie far below those experienced by credit unions during the same period.

SAVINGS AND LOAN GROWTH, 1950-'78

The growth aspect of the savings and loan industry most comparable to credit unions is that of total savings held. This is particularly true since savings and loans traditionally have not been engaged in lending in the same areas as credit unions.

TABLE 3. Demand, Time, and Total Deposits in All Insured Commercial Banks in the United States and South Carolina, 1950-'78

Year-End	United States ($ billions)			South Carolina ($ millions)		
	Demand	Time	Total	Demand	Time	Total
1950	$117.0	$ 36.5	$ 153.5	$ 575.3	$ 87.4	$ 662.7
1955	141.0	49.9	190.9	729.9	118.1	848.1
1960	155.7	73.3	228.9	820.4	202.3	1,022.7
1965	183.8	147.7	331.5	1,134.2	331.1	1,465.3
1966	191.7	161.1	352.8	1,185.2	394.1	1,579.3
1967	210.5	185.3	395.8	1,282.6	472.9	1,755.5
1968	228.7	205.9	434.7	1,371.6	613.0	1,984.6
1969	240.1	196.9	436.9	1,448.5	692.8	2,141.3
1970	247.2	235.3	482.5	1,602.1	816.8	2,418.8
1971	262.3	276.9	539.2	1,755.0	1,034.5	2,789.6
1972	296.4	320.5	616.9	1,985.4	1,223.1	3,208.5
1973	309.1	372.5	681.6	2,223.8	1,496.1	3,719.9
1974	314.4	432.0	746.4	2,193.6	1,673.7	3,867.3
1975	321.4	459.3	780.7	2,323.1	1,800.8	4,123.9
1976	333.9	496.9	830.9	2,364.3	2,063.0	4,427.3
1977	378.7	550.5	929.2	2,679.9	2,287.8	4,966.7
1978	400.3	616.1	1,016.4	2,791.5	2,486.2	5,277.7

Source: Compiled from Federal Deposit Insurance Corporation, **Assets and Liabilities of Commercial and Mutual Savings Banks.**

Savings and loans experienced very rapid growth over most of the period under discussion. Swiftly expanding housing markets and growth in institutional forms of savings have led to the increase in the industry. Inflation, obviously, has also been a major factor. Throughout the decade of the 1950's, the annual rate of growth in savings in the industry ranged from 13 to 20 percent in the United States and from 10 to 28 percent in South Carolina. For the entire period 1950-'60, savings dollars in the United States industry expanded 369 percent, growing from $12.8 billion to $60.3 billion (see Table 4). In South Carolina, the dollar growth in savings was 406 percent, going from $111.5 million to $564.4 million.

Expansion in the savings and loan industry continued throughout most of the 1960's although the rate of growth was somewhat diminished. In 1966 and 1969, savings grew by only 3 percent in all United States savings and loans and by only 6 to 7 percent in South Carolina institutions. For the entire decade, savings expanded in the United States industry from $60.3 billion to $142.9 billion, or 137 percent. In South Carolina, savings jumped from $564.4 million to $1,469.4 million, or 160 percent.

TABLE 4. Total Savings in Savings and Loan Associations in the United States and South Carolina, 1950-'78

Year-End	United States Total Savings ($ millions)	South Carolina Total Savings ($ millions)
1950	$ 12,861	$ 112
1955	30,813	311
1960	60,334	564
1965	108,703	1,024
1966	112,355	1,102
1967	122,769	1,209
1968	129,722	1,288
1969	132,739	1,362
1970	142,881	1,469
1971	169,035	1,751
1972	200,937	2,104
1973	220,443	2,358
1974	236,015	2,578
1975	277,674	3,049
1976	326,691	3,584
1977	377,302	4,185
1978	431,009	4,707

Source: Federal Home Loan Bank Board.

Savings and loan growth accelerated during most of 1970-'80. Annual growth rates ranged from 7 to 19 percent in the United States, and from 9 to 20 percent in South Carolina. During this period savings dollars grew from $142.8 billion to $431.0 billion in the United States, or 202 percent. In South Carolina, savings jumped from $1,469 million to $4,707 million, or 220 percent. Again, such growth rates are impressive.

COMPARATIVE GROWTH RATES, 1950-'78

Table 5 consolidates in the simplest manner the relative rates of change of the three primary depository institutional groups in the state and nation. (Mutual savings banks do not operate in South Carolina.)

These summary data dramatize the rapid growth experienced by credit unions in recent decades in the state and nation. The growth rates of the savings and loan and credit union industries in South Carolina are truly remarkable.

In dollar terms, it may be noted that total deposits of all banks in South Carolina in 1965 amounted to $1,465.3 million, total savings in savings and loan associations to $1,023.7 million, and total savings in credit unions to $45.0 million. Thus the savings in credit unions in 1965 was only 1.8 percent of total deposits and accounts in the three groups of established depository institutions of South Carolina. On the other hand, in 1978, banks held $5,282.9 million in total deposits, savings and loans held $4,707.0 million in savings, and credit unions had $501.4 million in savings shares. Thus, the credit union share of all deposits and accounts in the state by 1978 had risen to 4.8 percent. While 4.8 percent of total shares and deposits may not appear to be very large at first, the growth trends are significant and give evidence of still greater change for the future. In terms of savings and loan associations, credit unions have savings equal to 11 percent of savings and loan activity. In terms of time and savings deposits in banks, credit unions have 20 percent of the savings level in banks. In addition, the other major area of their activity, the field of consumer credit, demonstrates the strong trends of the industry still more tellingly.

ROLE IN CONSUMER CREDIT

Credit unions specialize in the extension of consumer loans and are the third largest consumer installment lender. They have steadily taken over a larger share of the market for consumer credit.

TABLE 5. Comparative Growth Rates of Depository Institutions in the United States and South Carolina, 1950-'78

Percentage Change	Commercial Banks		Savings and Loans	Credit Unions
	Time Deposits	Total Deposits	Savings Dollars	Savings Dollars
1950-'60				
United States	101%	49%	369%	485%
South Carolina	131	54	404	955
1960-'70				
United States	221	111	137	211
South Carolina	304	137	160	859
1970-'78				
United States	160	110	202	240
South Carolina	205	118	220	351
1950-'78				
United States	1,578	559	3,251	6,087
South Carolina	2,744	697	4,102	45,481

TABLE 6. Consumer Installment Credit Outstanding in the United States, by Holder, Selected Years, in Billions of Dollars and a Percentage of Total

Year-End	Total	Percentage	Commercial Banks	Percentage	Finance Companies	Percentage	Credit Unions	Percentage	Retail and Others	Percentage
1950	$ 14.5	100%	$ 5.8	40%	$ 5.6	39%	$ 0.6	4%	$ 2.4	16%
1960	42.6	100	16.7	39	14.8	35	3.9	9	7.1	17
1965	71.3	100	29.0	41	22.3	32	7.3	10	12.4	17
1970	105.5	100	48.7	46	27.6	26	13.0	12	16.3	16
1974	164.6	100	80.1	49	36.1	22	21.9	13	26.5	16
1976	194.0	100	93.7	48	38.9	20	31.1	16	30.1	16
1977	230.8	100	112.4	49	44.9	20	37.6	16	36.0	15
1978	275.8	100	136.2	49	54.3	20	45.9	17	39.2	14

Source: Derived from **Federal Reserve Bulletins** and National Consumer Finance Association, **Finance Facts Yearbooks.**

While precise data are not available for total consumer credit in South Carolina, it should be useful to note the national trends.

Total consumer installment credit expanded in the United States from $14.5 billion in 1950 to $275.8 billion in 1978. As demonstrated by the data in Table 6, commercial banks remained dominant in the field throughout the period and became even more significant in the 1970's. Since the early 1970's, banks have held 48 to 49 percent of total installment credit. Finance companies, both sales and consumer finance companies, lost market share throughout much of the period. Indeed, in 1950, finance companies held about 39 percent of total installment credit, but by 1978, this figure had dropped to about 20 percent. Retailers and other lenders lost a small part of their market share over the years but the total change was not very great.

Credit unions stand out as the area in which remarkable growth in installment credit has occurred. Starting from a position of $600 million in 1950, their installment loans were $45.9 billion at year-end 1978. As a percentage of total installment credit in the nation, credit unions moved from a 4 percent level in 1950 to a 10 percent level in 1965, and then to 17 percent in 1978. It would appear that the industry will soon surpass the finance company industry in credit extensions and remain far ahead of the combined consumer credit extensions of retailers and miscellaneous lenders.

On another basis, it may be noted that total credit union loans in South Carolina expanded from $43.2 million in 1965 to $479.8 million in 1978, or 1,010 percent. Individual loans for personal expenditures by commercial banks in South Carolina grew from $314.1 million to $1,485.4 million in

June 1978, or 373 percent. The fact that consumer credit loans of credit unions in South Carolina are now about 32 percent of total bank consumer credit, whereas in 1965 the figure was below 14 percent, gives a simple base of comparison of the competitive pace of the credit union movement in the state.

SOME MEASURES OF SIZE IN THE INDUSTRY

Credit unions have tended in the past to be small organizations staffed largely by volunteers as members of operating committees. The average size of credit unions in the United States in 1950 was about $100,000 in assets; in South Carolina the average size was only $45,000. By 1965, average assets per credit union were $477,000 in the United States and $372,000 in South Carolina. Average size per association grew as the industry grew, and by 1978 stood at $2.8 million in both the United States and South Carolina. The median size credit union (midpoint of distribution), however, is much less. In 1978, the median association in the United States was $575,000, and in South Carolina, $937,000. In South Carolina in 1978, there were 27 credit unions operating with total assets each of under $100,000, with some having as little as $20,000 or so. On the other side of the distribution, there were 12 credit unions in the state with $10 million or more in assets. The largest credit union in the state was at the Charleston Naval Shipyard with $69 million in assets. The Navy Federal Credit Union in Washington reported $765 million in assets in 1978.

Employment in the industry remains relatively low, but the pace of growth is nevertheless very impressive. Full-time employees in the United States grew from 20,582 in 1965 to 58,821 in 1978, or 186 percent. For the same period, full-time employees in South Carolina rose from 118 in 1965 to 779 in 1978, or 560 percent. There are still significant contributions of time and effort by part-time employees and volunteers. In 1978, for example, the industry reported 33,706 part-time employees and 228,351 volunteers. In South Carolina, there were 125 part-time employees and 2,459 volunteers. While the role of volunteers in the actual operational aspects of the larger credit unions is no doubt nominal, they still provide many of the essential services in the smaller and average-sized associations. The many volunteers in the industry are of considerable value both in terms of their contributions to the management process and as spokesmen in the political arena.

The close correlation between the growth of average savings balances per member and average dollar loans outstanding is apparent from Table 7. Average savings per member grew from $563 in the United States in 1965 to $1,296 in 1978; in South Carolina, average savings moved from a level of $399 to $1,100 during the period. Loans outstanding per member advanced from $496 to $1,257 nationally; at the state level, loans per member grew from $383 to $1,146. Savings balances cover a wide range in size, from a few dollars to $20,000 or more. Loan sizes also are highly variable. Many members have no loans outstanding but use the credit union as a savings institution. Other members have a nominal savings relationship but use the credit union as a source of borrowing.

Members borrow for many diverse reasons, most of which can be labeled as consumer credit. However, the industry is now extending first mortgage loans in the amount of $4.4 billion at the national level, or about 9 percent of total loans. In South Carolina, mortgage loans are 7 percent of total loans outstanding. Federal credit unions with assets of $2 million or more are permitted to make long-term mortgage loans at rates not above 1 percent per month.[4]

Automobile loans comprise the largest single category of credit union lending activity. Car loans have expanded both in absolute and relative terms over the years. In 1965, car loans amounted to 15 percent of United States credit union loans; in 1978, such loans were 31 percent of credit union lending. In South Carolina, car loans are even more significant, rising from 22 percent of credit union loans in 1965 to 37 percent of total lending in 1978. At the national level, the industry estimates that credit unions financed 21.5 percent of all car loans in 1978. In South Carolina at year-end 1978, commercial banks reported a total of $725 million in installment loans for cars while the credit unions reported $195 million, or nearly 27 percent of the level of bank car financing.

CREDIT UNION GROWTH IN SOUTH CAROLINA COUNTIES

In a dynamic industry many changes can be expected in each operating unit and in each geographic area serviced. It may be useful to look at the broad base of change as measured by credit union assets in each of the 46 counties of South Carolina between 1967 and 1978. Table 8 presents these data with the changes in the number of credit unions active in each county.

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[4] Charles P. Edmonds and Robert B. Rogow, "Credit Unions Move into the Home Mortgage Market," **Real Estate Review** (Summer 1979).

TABLE 7. Certain Measures of Membership, Financial, and Employment Size of Credit Unions, 1965-'78

Measure	1965	1970	1975	1978
Average Size of Credit Union Membership				
United States	477,000	758,000	1,689,000	2,855,000
South Carolina	372,000	714,000	1,612,000	2,833,000
Average Savings Per Member				
United States	$563	$678	$1,054	$1,296
South Carolina	$399	$582	$ 993	$1,100
Average Dollar Loans Outstanding Per Member				
United States	$496	$619	$ 906	$1,257
South Carolina	$383	$537	$ 892	$1,146
Auto Loans as Percentage of Total Loans Outstanding				
United States	15%	24%	21%	31%
South Carolina	22%	26%	31%	37%
Reserves as Percentage of Assets				
United States	5.6%	6.3%	5.4%	4.5%
South Carolina	4.8%	5.9%	5.9%	4.5%
Full-Time Employees				
United States	20,582	26,159	40,725	58,821
South Carolina	118	200	427	779

Source: Compiled and calculated from data in various Credit Union National Association **Yearbooks.**

No credit unions were reported for 16, or one-third, of the counties in South Carolina. Some of these are sizable counties in both area and population, including Williamsburg, Hampton, Dorchester, Dillon, Chesterfield, Barnwell, Bamberg, and Allendale. These are not highly industrialized counties in general and this is no doubt one reason for the absence of credit unions. Unless a firm has 500 or more employees, it is not now considered a good prospect for the establishment of a credit union. It should be noted that the absence of a credit union does not mean that local residents may not be active members of a credit union listed as operating in a neighboring county. County of residence and county of employment differ in many cases, for example.

The relative size of credit union assets in relation to passbook-type savings in banks and total savings in savings and loan associations is relevant. For example, Charleston County had $420 million in savings and loan savings in early 1978, and $121 million in credit unions. On the other hand, passbook-type savings in Charleston County banks stood at only $100 million. In Richland County, credit union assets were about $100 million at year-end 1978 while banks held $104 million in regular savings and the savings and loan associations held almost $600 million.

Table 8 data reveal that credit union assets are concentrated in the metropolitan areas of the state, and in the counties with considerable industrial activity. Military-related credit unions in Beaufort, Charleston, Richland, and Sumter Counties add a great deal to credit union activity in those areas.

EXPANSION IN RANGE OF SERVICES AVAILABLE THROUGH CREDIT UNIONS

The small credit union operating in an office space donated by an employer and managed by volunteers serving on behalf of their fellow employees is rapidly disappearing. Although there are still credit unions operating in this manner, they have little impact upon the total market. Much of the above material should have demonstrated that the institutionalization of credit unions into an industry posture has resulted in the development of local institutions providing a rather broad range of services. These services no doubt will be extended beyond those presently provided since the industry is being authorized to supply more and more.

Credit unions no longer operate under very restrictive size and maturity limitations on their loans. No member can borrow more than 10 percent of total share capital, but this is not a real barrier to lending. Credit unions may make mortgage loans as well as the more traditional personal consumer and automobile loans. It is likely that mortgage lending will grow through the years.

TABLE 8. Growth of Credit Union Assets in South Carolina Counties, 1967-'78

County	Number of Credit Unions		Total Credit Union Assets	
	1967	1978	December 1967	December 1978
Abbeville	0	3	$ 0	$ 1,577,870
Aiken	4	7	5,150,826	32,040,305
Allendale	0	0	0	0
Anderson	8	11	2,346,316	10,940,520
Bamberg	0	0	0	0
Barnwell	0	0	0	0
Beaufort	2	2	3,222,941	41,240,813
Berkeley	2	4	236,309	11,217,632
Calhoun	0	0	0	0
Charleston	17	18	14,189,986	121,486,611
Cherokee	0	2	0	1,111,735
Chester	3	2	1,906,618	7,837,306
Chesterfield	0	0	0	0
Clarendon	0	0	0	0
Colleton	0	1	0	86,357
Darlington	4	4	7,212,898	25,276,368
Dillon	0	0	0	0
Dorchester	1	0	2,200	0
Edgefield	0	0	0	0
Fairfield	0	1	0	25,264
Florence	7	14	1,114,865	8,972,454
Georgetown	1	3	2,532,041	7,208,340
Greenville	22	31	5,519,948	40,432,461
Greenwood	3	7	1,061,720	9,712,130
Hampton	0	0	0	0
Horry	2	3	1,933,591	18,701,767
Jasper	0	1	0	94,727
Kershaw	3	3	1,570,296	12,798,630
Lancaster	4	3	2,905,013	16,167,117
Laurens	1	3	700	2,675,722
Lee	0	0	0	0
Lexington	2	3	52,825	1,632,197
Marion	0	0	0	0
Marlboro	0	1	0	97,289
McCormick	0	0	0	0
Newberry	1	0	4,898	0
Oconee	0	3	0	902,211
Orangeburg	4	4	367,063	1,547,717
Pickens	3	5	367,796	3,545,104
Richland	37	31	11,889,505	99,724,614
Saluda	0	0	0	0
Spartanburg	12	18	1,205,720	13,790,253
Sumter	4	6	3,160,133	52,108,203
Union	1	2	210,193	1,640,913
Williamsburg	0	0	0	0
York	12	9	6,472,010	27,233,250
TOTAL	161	204	$74,635,781	$571,825,880

Source: South Carolina Credit Union League.

Perhaps the largest single force impacting upon credit union activity in the present generation has been the development of electronic funds transfer services in all phases of the financial community. As bank and savings groups brought more and more of these services to the public, credit unions began to seek powers that would allow them to compete effectively. As the public became more sensitive to interest yields on savings and the possibilities of using savings balances as a part of their working cash balances to meet routine household needs, credit union leaders became very restless in their historic role in the economy. With the aid of many supporters in Congress, the industry was authorized to issue share drafts against savings shares, to install automatic teller machines, to issue bank and other credit cards, and to plan for the provision of trust services. They may also borrow money through central loan facilities and issue money market certificates. All of this means that the credit union industry is moving quite rapidly into new areas of personal financial services and becoming a financial intermediary of significance in the economy.

A Central Liquidity Fund was provided for by Congress in 1978, but it is still not operational. The original concept of the legislation was to establish a type of central bank, or lender of last resort, for the credit union industry as a means of preventing a liquidity crisis in the industry. An earlier United States Central Cooperative was established in 1974, composed of state-level central credit unions, for about the same purpose. It remains somewhat unclear as to how the central loan facility will in fact operate through the years, but it is obvious that some type of liquidity requirement will be imposed as the breadth and dynamism of customer services continues to expand. The development of share draft usage and the movement into mortgage financing are good examples of the services leading to the development of such a facility. At the present time no specific liquidity requirement prevails unless the organization is providing share-draft facilities. There are proposals extant that do require specific liquidity reserves. The reserves credit unions have been accumulating over the years out of earnings, amounting to about 4.5 percent of total savings, are not necessarily held as liquidity. Such reserves do provide a sort of cushion in terms of costs of funds since no dividends or interest payments must be made on that portion of their liabilities.

The share-draft (a type of check) controversy still exists even though some 1,700 credit unions were issuing them in the spring of 1979. A United States Court of Appeals held in April 1979 that the National Credit Union Administration had exceeded its authority in empowering share drafts and that the practice would have to cease by January 1980 unless Congress acted to authorize the practice by then. The issue remains unresolved, as of October 1979, but the industry expects Congress to complete action in its favor. Share drafts are being provided by certain Federal credit unions in South Carolina, and if specific action is taken by Congress, it is anticipated that state chartered associations will also provide the service.

Share drafts are used by savers to pay their bills in the same way they would use bank checks, and they are processed and transferred through the banking system in much the same way. In order to have better entrée into the financial system and clearing processes, credit union groups have purchased banks in various parts of the country, and have access to the automated Clearing House system used by the banks and other savings associations.

The Credit Union National Association has begun recently to release material referring to a credit union financial system in words such as these:

> Advances in the art of technology, along with expanded legal powers, have paved the way for many innovative financial services. Credit union members have both expected and demanded that these services be made available to them. . . . Basically, the national credit union financial system is a coordinated and interrelated network of credit unions and their service organizations. The system augments the ability of credit unions to provide financial services to their members and to maintain and enhance their competitive position in the financial services marketplace.[5]

These are not the words of a timid and struggling cooperative movement seeking to provide a simple plan for savings and personal loans to members. Rather, they reflect a thrust of ideas and action designed to provide a complete system of household financial services. Who are these members seeking such a range of services? They are, of course, a fair cross section of the working household of the nation. The 40 million members in the country and the 461,000 members in the state do represent a significant segment of the population. It must be realized that many households hold multiple memberships and that many are not active at any point in time. From a consumer panel survey of mostly middle-income households in South Carolina in late 1976, it was determined that 60 percent of the panel had savings accounts in banks, 60 percent had accounts in savings and loan associations, and 43 percent had at least one spouse as a credit union member.[6] These percentages overstate the situation for the total population of the state but they are indicative of the rôle of the credit union industry in the fields of consumer savings and credit.

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[5] C.U.N.A., **News Backgrounds** (Madison, Wisc.: C.U.N.A., May 1, 1979).

As the operational definition of the "common bond" of membership has been expanded through time, the potential for additional membership has remained large. There are now credit unions in the country for Alaska U.S.A., which has locations throughout Alaska and a "service center" in Denver, Colorado; hairdressers in Connecticut; and the owners of Arabian horses.

In addition to the efforts of credit unions to enter the electronic transfer of funds field, they also are now branching in both the state and the nation. Federal credit unions find it very easy to branch, and in South Carolina, while state credit unions must request permission, they really encounter little difficulty. If the branching movement accelerates, the industry is likely to find a significant increase in its operating costs and a partial loss of support as a neighborhood or common bond association.

CREDIT UNION PROSPECTS IN PERSPECTIVE

What are some of the reasons for the extraordinary growth experienced by credit unions over the last 30 years or so? If these reasons are summarized, a better perspective for looking at the future course of development can be achieved. The underlying motivation of the credit union movement was to establish mutual or cooperative associations of workers, or others with a common bond, to provide an outlet for orderly savings and a source of small loans. In the main, these associations were for lower- and middle-income groups who did not feel that the existing financial institutions desired to take small savings deposits and to extend small loans at reasonable rates. Men of goodwill were willing to sponsor the movement nationally, and employers joined in with their support as a means of providing a worthwhile service to their employees. The government was willing to allow such associations to operate without taxation, and indeed at a later date to provide insurance for the savings accounts. Cooperative associations have been favored for many years in this country, and the more recent trends of consumerism tend to maintain their position.

Throughout the years, the principal advantage to the credit union movement has been the direct and indirect contribution of employees or other associational groups. Most credit unions have been given office space and provided with payroll withholdings for both regular savings and installment collections, assistance in organization and development, and encouragement to committees to do a good job for their fellow members. In other words, a large part of the organizational and management expenses of smaller credit unions have been donated by employers and volunteers from within the group.

Credit unions have also had the advantage of not being subjected to the interest rate limitations of Regulation Q which have kept interest payments on savings accounts in banks and savings and loan associations at rather low levels. The result has been that credit unions generally have declared a dividend rate on savings above the rates paid by either the banks or the savings and loan industry. The higher rate, typically 6 or 7 percent in recent years, has made the credit unions more attractive as savings repositories.

Since credit unions have tended to have the cost advantages of subsidized quarters, minimal operating and personnel costs, and freedom from taxation, they have been able to keep their loan rates somewhat below market rates for similar credit. Their expanding role in consumer credit provides good evidence of their relative attractiveness as a credit supplier. Throughout the years, credit unions have been able to provide new car loans at around 9-10 percent annual percentage rate and small individual loans at around 11-12 percent. These rates were distinctly lower than finance company rates and somewhat below rates charged by banks. The provision of free credit life insurance for borrowed funds as well as life insurance on savings shares has also made credit unions more attractive to members. Much of this translates into saying that credit unions have enjoyed distinct cost advantages which they have been able to share among their membership.

The rapid growth in dollar activity and the dramatic expansion of the range of services proposed for credit unions may result in a lessening of the cost advantages the industry has enjoyed up until now. One of the principal reasons for this is the fact that the expanded activities of many associations are now placing them in the nation's money and capital markets on a month-to-month basis. As noted in the reference to the development of a credit union financial system, the credit union industry must now compete with aggressive institutions seeking the short-term savings of the public, both as regular savings accounts and as money market certificates. As credit unions "mature" and begin to serve members with higher income levels, they find that they must pay competitive rates to people doing business with more than one type of institution and pay national rates when they have to borrow to meet their customer needs.

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[6] Franklin J. Ingram and Olin S. Pugh, **Financial Services: Household Attitudes and Practices (A Consumer Panel Approach)**, OCCASIONAL STUDIES Series, no. 12 (Columbia, S.C.: Division of Research, The University of South Carolina, July 1977), pp. 15-20.

It has been estimated that the cost of capital to many credit unions may be in the 8 to 9 percent range in 1979. This suggests that credit unions should raise their lending rates, or be very selective in extending credits. The historic 12 percent maximum rate is a formidable psychological and real barrier which may need to be revised. Just as importantly, the disposition of local credit committees to approve almost all credit applications adds to the problem. Thus the real issue may be reduced to the fact that credit unions may no longer be able to project the image of the small, "self-help" association existing to assist the small saver and the small borrower.

Since Regulation Q will probably be phased out in the near future, credit unions are likely to lose some of their advantage in paying higher rates than other savings intermediaries on savings accounts. This may slow down their growth rate in savings accumulation, and, if so, will certainly make it more difficult for them to have sufficient loanable funds within the limits of traditional charges devised by the industry.

Problems of liquidity management have surfaced in the credit union industry in recent years and are almost certain to become even more commonplace in the future. With the issuance of credit cards, share drafts, and automated teller machines, credit unions can no longer calculate that savings will remain for a considerable length of time. Cash drainage has become a serious problem in 1979, and credit unions are having to position themselves to meet these losses. Steps are being taken at the national and local levels to cope more effectively with cash drainage, but these measures will impose a special burden upon management, and ultimately upon membership. Loan losses are also likely to rise as the industry provides more liquidity to its members and as the industry deals with groups that are less cohesive than in the past. Increased mobility of the work force and household residence will also contribute to higher loss ratios.

The credit union movement, or industry, has always been hampered by the lack of experienced management. While volunteerism may be cost effective, it is not the way to obtain trained and experienced management personnel capable of management planning and implementation of policies or of meeting the challenges of the expanded range of services the public and Congress seem to expect. If the industry is to grow effectively, and if it is to provide the services now being planned, credit unions must attract more and more management talent capable of liquidity management as well as general financial management, and it must train many of those now involved within the industry. Furthermore, this educational effort cannot be limited to the full-time managers of the associations. Key board and committee members must also be made sensitive to the requirements of an industry that seeks to provide more and more financial services.

A rapidly growing credit union industry will at some point attract the active attention of legislative groups seeking new sources of tax revenue. Just as the mutual savings and loan industry was brought under parts of the income tax code in 1969, credit unions cannot expect to be insulated forever from some form of taxation. Even so, they are likely to maintain a distinct tax advantage over both commercial banks and finance companies.

All of this might lead one to believe that the future of credit unions as an industry is not very bright. Such, however, is not the case. Credit unions have the tremendous advantages of being popular in most political circles and of enjoying the support of most employers and other associational groups. Payroll withholding and in-plant locations give the industry advantages that will not disappear quickly.

Credit unions will grow because they are in the center of household finance, both as a means of routine savings and as a source of credit. Households have turned to institutional forms of savings over the years, and the 22,000 credit unions are in contact with many of the households. In addition, consumer credit is a growth sector of the economy and this is the area in which credit unions have greatest natural advantage.

Movements toward share drafts, credit cards, automated payments, and the rest will keep the industry in touch with the younger elements of society. If the industry proceeds cautiously and obtains adequate managerial talents to provide such services, it will grow as a result. The existing network of banking and clearing relationships will make such things feasible.

An industry that has grown in South Carolina at rates of 20 percent or more for all but 2 years in the last 20 years is not likely to level off in the near future. While the industry should not expect growth rates to remain at such high levels, a heavy growth trend appears most likely. The industry, standing at $572 million in total assets in South Carolina at year-end 1978, is likely to double in real terms in the 1980's. In dollar terms the growth will be even more. Should inflation persist at relatively high levels, credit union assets no doubt will more than treble in the next decade. Regardless of the precise dollar levels attained by the industry, it is certain that credit unions will play a more prominent role in the financial affairs of the state in the future. Other financial institutions will be forced to pay more attention to credit unions as a highly effective competitor for the consumer's dollar savings and as a supplier of the consumer's dollar needs in daily life.

The Employer and Employment Laws

By James J. Baldwin, LL.D.

The Employer and Employment Laws is a regular feature. Suggestions and inquiries by readers are invited.

UNION DAMAGE SUITS TO INTIMIDATE COMMUNITY OFFICIALS: A NEW WEAPON IN THE WAR TO UNIONIZE SOUTHERN WORKERS

A disturbing new organizing tactic has recently been used by some unions in their efforts to unionize employees of companies in the South. The tactic is designed to combat the problems encountered by these unions when a community and its citizens become involved in helping a particular company remain union free. This new tactic is for the union to file a lawsuit against local business leaders, the local Chamber of Commerce, and community governmental and law enforcement officials, claiming that their actions on behalf of the company being organized constitute a conspiracy to violate the "civil rights" of the union and its organizers. These court suits are entirely different from the usual unfair labor practice charges the unions routinely file with the National Labor Relations Board (NLRB) during organizing campaigns.

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In 1977, the Amalgamated Clothing and Textile Workers Union filed suit against the Laurinburg-Scotland County, North Carolina, Chamber of Commerce, numerous County Commissioners, several municipal officials, and various businessmen in that community. Among other things, the suit charged that the Chamber of Commerce had received appropriations of public money during the past several years to encourage the industrial development of Scotland County, but that the chamber had spent those funds to discourage union-oriented industries from locating there. The union also suggested that part of those public funds had been spent for surveillance of union organizers and for planning strategies to keep unionized industries out of the area. Because of the way these funds were allegedly spent, the union charged that the government officials from Laurinburg and Scotland County had exceeded their legal authority. The union asked the court to order the defendants to pay back all misspent funds, to enjoin any future "illegal" appropriations and expenditures, and to award damages of $25,000 and attorneys' fees for the suit. The case was settled in July 1978 before it went to trial. The court entered a consent decree stating that the Chamber of Commerce would have to start keeping more detailed records of how it spent any public funds it received. Without admitting that they had done anything illegal or improper, the defendants agreed to ensure that all future expenditures would be limited to "public purposes." The union did not succeed in having any of the money returned to the public treasury, nor did they receive money for damages. However, the chamber did agree to pay up to $2,000 of the plaintiffs' costs in bringing the suit.

In November 1978, the United Steelworkers of America filed suit against the sheriff of Richmond County, North Carolina, and a company the union was trying to organize in the area, charging that they had prevented union organizers from fully exercising their legal rights in attempting to organize employees in that county. The violation of their civil rights was alleged to have involved the local sheriff's selective enforcement of traffic laws against union organizers and surveillance of union meetings. These alleged illegal activities were claimed by the union to be a part of an alleged conspiracy between the sheriff and that company. The union requested that the court enjoin the sheriff and the company from further activities of this type, and award both actual and punitive damages. This case has not yet come to trial, and attorneys for the sheriff and the company have requested that the case be dismissed by the court.

In April 1979, the Amalgamated Clothing and Textile Workers Union filed a $700,000 damage suit against the Mayor of Milledgeville, Georgia, several Milledgeville police officers, the manager of a local motel, and several others for allegedly spying on union organizers and "blacklisting" prounion employees. On July 18, 1979, the union amended the suit and added four companies as defendants, claiming that J.P. Stevens, Grumman Aerospace Corporation, Concord Fabrics, and Meadows Industries had exchanged information among themselves, and with the other defendants, in an effort to prevent any unionization in local industries. The union also increased its damage claim to approximately $12 million from the four corporate defendants. Shortly after the suit was amended, several of the defendants settled the suit by agreeing to pay damages to the union, to cease interfering with the union, and to testify voluntarily to the events in question on behalf of the union. Grumman Aerospace paid $10,000, the mayor and the motel manager each paid $1,000, the police chief paid $750, and one of the police detectives paid $250. There had been no disposition of the remainder of the suit at the time this article was printed.

Obviously, there are many legally permissible steps that business leaders and local government officials can take to see that a company in their community does not lose an election to a union. One of these involves contacting the close friends and relatives of employees in the company the union is attempting to organize and discussing with them the disadvantages of having a union in their community. These contacts by respected local leaders can be a very effective way of making sure employees have all the facts about a union before they vote in an NLRB election. The unions have begun to realize, however, that such community involvement can seriously erode the union's chances of winning NLRB elections.

When faced with the threat of a union damage or conspiracy suit for thousands of dollars, along with the accompanying publicity, there are very few individuals or companies who do not have second thoughts about "getting involved" in helping a corporate neighbor defeat a union organizing attempt. By filing such suits the unions hope to create a climate that will make private citizens and local government officials unreasonably apprehensive about the consequences of each and every action they take in giving community support to a company faced with a union organizing campaign. Community leaders need to be made aware of this new union tactic so they will not allow themselves to be intimidated by it. Then they can proceed to exercise their legal rights to try to help convince employees in their community that a union is not in their best interest.

Bottom Lines

By James B. Edwards, Ph.D., C.P.A., C.M.A., C.I.A., C.D.P.

Bottom Lines is a regular feature that brings attention to practical business taxes and accounting. Suggestions and inquiries by readers are invited.

FEDERAL TAX CHECKUP LINES

Prompt and proper use of tax strategies will help protect you and your business from unnecessary taxes. "Now" is always the right time to put your tax picture in focus. This month's column is devoted to consideration of some Federal tax checkup points. If any of these items appear to be relevant to your affairs, you should consult your professional tax advisor.

LINE ONE

Pinpointing the exact date you receive income or pay a deductible item isn't too important during most of the year. However, at year's end, this point becomes very important. One day can cost or save you a significant amount of tax dollars.

Tax-timing of income for a cash-basis taxpayer is a matter of control. Suppose a payment is due in late December, but you don't actually receive the check until early January. If you could have gone by and picked up the check, it's December income. If the delay was beyond your control, it's January income. The rule of reason is a matter of practical personal appearance at the debtor's place of business.

Even a check received after banking hours is income on the date received. Banking operations is not a controlling factor in determining constructive receipt of income.

The Revenue Service has announced its intention to apply a special rule to employers who regularly distribute paychecks via mail. A check mailed at the end of December and delivered in January is December income only if the employee could have appeared in December and personally obtained his check. Otherwise, the check is income to the employee and **deductible by the employer** in January. This is an exception to the delivered-when-mailed rule.

Tax-timing of deductions is a matter of delivery for cash-basis taxpayers. It's the date you deliver the payment that counts, and delivery means handing the check over to the creditor directly or placing it in the mailbox of the postal system. This is an example of the delivered-when-mailed rule. It does not matter on which date the check gets cashed. Cash-basis taxpayers get the deduction when they actually deliver the payment.

LINE TWO

Tax-timing of deductions for taxpayers on the accrual basis is different. They have less leeway for postponing income and accelerating deductions than cash-basis taxpayers. Still, smart timing is important.

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Year-end bonuses can be accrued in one year as a deduction for the accrual basis employer and not taxed as income to the employee until the following year when actual delivery takes place. The bonus must be committed and fixed for the year in which the employer takes the deduction. For example, an employer commits himself in 1979 to pay between 5 and 10 percent of that year's profits to employees, the exact amount and allocation to be determined in January 1980. The deduction for 5 percent accrues in 1979 as a deduction for the employer because it is both committed and fixed that year. Anything above the 5 percent is deductible when it becomes fixed, presumably in early 1980.

Routine supplies that don't have to be inventoried can be stocked up in one year or delayed until the following year. Since they don't have to be inventoried, they are used as a deduction in the year of purchase.

Inventories may be lowered by writing down items to their true value. The lower your closing inventory the lower will be your taxable income. Value goods in your inventory that are worth less than your cost at the expected selling prices less direct costs of disposition. Of course, you'll need proof of the lower expected selling prices. For merchandise inventory, you must actually offer the goods for sale within 30 days after your inventory valuation date. If they are unsalable, get rid of them as trash.

Repairs around the end of the year should be made in the year in which the deduction will be more valuable. Review your repair needs early so you can plan the actions taken.

Business bad debt deductions may be lost if not claimed in the year in which the debt becomes worthless. If a business debt is partially worthless, you may deduct the worthless portion in a previous year, but the final deduction must be taken in the year of total worthlessness.

Payment of a contested liability accrues the deduction even though the contest is continued. You have complete control over the timing of the deduction. You may pay or delay payment, depending on your tax situation.

Charitable contributions of corporations, both cash-basis and accrual taxpaying corporations, may be deducted in a year as long as the contribution is made by the tax return filing date. This allows a corporation to place a contribution deduction on its tax return and then make the contribution within 2½ months of year-end. You not only have extra time to figure out your contributions, but you also have the use of your funds that much longer.

Avoid capital gains in a loss year. Capital gains offset operating losses dollar for dollar and, in effect, are taxed at ordinary rates, instead of at capital gains rates. If you are due for a loss, you should consider all the methods of accelerating deductions and postponing income, especially if you can obtain refunds through net operating loss carrybacks to any of the previous three taxable years.

If you have a loss carryover that's running out this year, you should accelerate enough income and postpone deductions in order to use up the carryover so that you will not lose it. Net operating losses may be carried forward for seven years if incurred in tax years ending after January 1, 1975.

Contributions to an Individual Retirement Account (IRA) may be made within 45 days after the end of your taxable year. If you don't have an IRA, you can set one up as late as the tax return filing date and still get a deduction in the previous year.

For Keogh plans the grace period applies only if your plan is in operation by year-end. For example, you cannot set up a Keogh plan in January 1980, make a contribution, and take a deduction on your 1979 return.

BEYOND LINE TWO

Of course, there are many more checkup points related to the matter of tax-timing. Hopefully, those discussed here will serve to alert you to become more aware that you do need to put your tax picture in focus.

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Much more to come in the future . . . some practical matters will be explored in depth . . . others will merely be identified . . . please share your ideas, questions, answers, etc. — just send them to Dr. James B. Edwards, College of Business Administration, The University of South Carolina, Columbia, South Carolina 29208.

Economic Uncertainties in the Year Ahead

By James A. Morris

Despite the facts that real Gross National Product declined at a 2.4 percent rate in the second quarter of this year and that leading economic indicators have been erratically signalling recession for many months, there are analysts who deny that a recession is present or even imminent. The unexpectedly high rise in real GNP in the third quarter added support to these optimists, but it will most likely represent false hope. Some basis exists for the conclusion that the economy is simply going to experience a period of slow growth in the months ahead. This reasoning is based on the extent to which business activity has held up and also on the lack of movement upward in unemployment. The fundamental economic variables, however, including those internal and external to the system, are indicating a recession over several quarters and that the recession has already begun. If there are no further major shocks to the system in the form of prolonged strikes, unusually severe weather conditions, or a significant worsening of the energy supply situation, the recession is likely to be much less severe than the one that occurred in 1974-'75. In such a situation, the economy should move into a period of slow growth in the summer of 1980.

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Why a recession now? There are problems both on the demand side with declines in real consumer disposable income in the face of extended debt positions, and on the supply side with inadequate levels of investment and interferences caused by unrealistic government regulatory actions. Furthermore, these supply and demand problems are compounded by the problem of a negative growth in productivity. Energy price increases and supply problems have the effect of interfering with production in addition to having an obvious impact on inflation. Faced with the imperative necessity to turn the record-breaking inflationary pressures around and the pressure on productive capacity, there is ample justification for stringency in monetary policy, as indicated by recent decisions of the Federal Reserve System. Tight budgetary policy and moderation in the wage-price area are also required if the economic disease of inflation is to be contained. It is also significant that the impetus of recovery from the 1974-'75 recession, with expanded consumption leading the way, has dissipated over the past year. Investment expenditures, which are currently holding up well even though never vigorous enough since 1973, are expected to moderate as the recession develops. A thrust from expanded government spending, either in the form of a tax cut or a rise in levels of government spending, would be counterproductive in exacerbating an already critical inflationary situation.

There are sound reasons for anticipating a milder turndown than that of 1974-'75, during which the economy declined from peak to trough by almost 6 percent. The speculative boom in development of apartments, office space, and resort property is not present, and inventory build-up has been more restrained, at least until the last few months. Mortgage funds have been in more adequate supply, even though at high rates, thanks in some measure to more realistic interest rate regulations by government. This situation is changing, however, as money market rates move up. Exports have been increasing, due in part to past devaluations and developing overseas markets, and there is better liquidity in the business sector. There are also some signs appearing to indicate Congress is aware that government regulations on business enterprise need to be moderated and that private investment in plant and equipment and in technological research must be encouraged through the tax mechanism.

Such actions and more are necessary if the trend toward low levels of increase in productivity per man-hour is to be reversed. Passage of a realistic energy bill is essential in this connection as well as easing of the complex of regulations which is reducing the capacity of the private sector to produce and compete on an international basis. There is, in addition, a clear necessity in the years ahead of insuring reasonable stability in the supply and price of foreign oil. Unfortunately, the means for accomplishing this are well beyond the scope of this article.

As the probable course of the economy over the year ahead is evaluated, it is necessary to make some basic assumptions about factors affecting business conditions. It is assumed, first, that moderating inflation will be the first priority economic objective over the next year or two or until prices are under reasonable control. Another assumption is that government deficit spending will not be significantly increased in 1980 to counter the expected recessionary rise in unemployment, but that some tax relief for business and, perhaps, a roll-back on social security taxes, may be enacted. It is also assumed that OPEC prices will be raised about 10 percent per year and that no major shortages in petroleum products will occur. Further, major strikes are presumed to be averted as well as bankruptcy for the Chrysler Corporation. In the broader framework, an assumption is that no major confrontation involving actual warfare will occur but that world tensions will continue to smoulder, with particular reference to the situation in the Middle East.

Based on these assumptions and evaluations of recent economic data, it is projected that the economy will continue its downward movement at least through the second quarter of 1980. More specifically, GNP in real terms should decline moderately through this period with a decline from peak to trough of 2½-3 percent. As the recession proceeds, there will be some easing of inflation from current rates to 8-9 percent, and some increase in unemployment to 7-8 percent levels. Consumption expenditures are expected to moderate during the balance of 1979, based on debt burdens, negative growth in real disposable incomes, the lack of incentive to react to anticipated increases in prices, and price pressures on necessities such as energy and food. Consumer spending should pick up in the summer of 1980 and rise with improved performance of the economy. Business investment, which held up well in the spring, will likely ease in real terms as the recession develops further. It should begin to expand with considerable momentum by mid-1980, especially if anticipated tax changes designed to encourage savings and investment become law. Government spending, at the Federal, state, and local levels, is expected to rise in real terms by moderate amounts during the coming year. If unemployment becomes a critical problem, there will, of course, be strong pressures to engage in expanded deficit spending, especially in consideration of the fact that 1980 is an election year. The reaction to these pressures will be affected by the extent to which inflation is controlled by that time.

In essence, then, the most likely economic scenario is for a cutback in output, income, and employment of 2-3 percent over the next few quarters. Recent declines in real retail sales, automobile purchases, and housing starts and the build-up of inventories illustrate the course of events. If inflation pressures are reduced during this period, then tight money policies can be eased somewhat, and consumption and investment can again move forward. With the delicate balance between unemployment and inflation affecting monetary and fiscal policy, as well as anticipations by consumers and investors, it is unlikely that the economy will resume 3-4 percent real growth levels until late in 1980. By 1981, GNP should be rising at close to 4 percent rates, with unemployment below 7 percent, and a prime rate of 10 percent or less likely.

The South Carolina economy has maintained its forward momentum well, but leading and coincident indicators are providing signals of trouble ahead. The average workweek is easing slightly, with less overtime worked, but employment gains continue, with unemployment at lower than national rates. The agricultural sector is strong, and the results of sound industrial development over the past few years are showing up in payrolls, income, and spending.

Textiles, as a bellweather industry for the state, has improved its export potential, and employment is moderating only slightly at this time. It is most unlikely that the industry will experience the severe contractions that characterized the 1974-'75 recession. Inventory and capacity buildup has been restrained, and the markets for textile products are not expected to decline substantially. During the recovery period since the last recession there has been a growth in capacity and employment in diversified manufacturing activities to include those in the durable goods area. Those plants will be affected directly by national economic conditions, but the fact that they are newer and more modern facilities will help their competitive position.

In the sensitive construction area there should only be moderate declines because of a substantial amount of ongoing building in both industrial and public sectors. The expanding and productive tourism sector is affected more by energy problems but should experience restrained growth rather than absolute decline in activity.

There are, therefore, reasonable grounds for a conclusion that while economic activity in South Carolina will mirror national conditions, the decline will be more moderate than that for the nation. Total personal income may well rise at 9-10 percent rates in inflated dollars, but real growth will likely be negative for several quarters.

In essence, the economies of the nation and the state, after a respectable recovery from the painful and severe recession of 1974-'75, have apparently peaked and are undergoing a hopefully mild recession. There is weakness in consumer spending because of debt burdens and declines in real disposable income which will impact upon capital investment, already in trouble with burdensome government regulations and productivity problems. The archvillain of inflation is being attacked with restrictive monetary policies, some moderation in deficit spending, and actions to encourage wage-price restraint. High interest rates are being reflected in lower housing starts and automobile sales and in other ways. As the recession proceeds, there will be some easing of demand pressures, which will, in turn, reduce supply problems.

As inflation pressures are reduced and monetary policy can be loosened, attention can be directed to more fundamental problems facing the economy. A realistic energy program, actions to raise the level of investment, and technological research and elimination of redundant restrictions on economic freedoms of business and consumers are urgent needs. Until government policies and programs that contribute to inflation and low productivity levels are dealt with squarely, and the private sector unleashed, the prospects for 4-5 percent levels of real economic growth are dim.

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The Management Bookshelf

By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

The Management Bookshelf is a service to our readers provided by the Elliott White Springs Library of the College of Business Administration of The University of South Carolina.

OTHER PEOPLE'S BUSINESS: A PRIMER ON MANAGEMENT CONSULTING

by Howard J. Klein
Mason/Charter Publishers, Inc.
641 Lexington Ave.
New York, NY 10022
1977, 202 pp., $8.95

This book introduces the reader to the world of management consulting. It provides interesting background reading to those interested in consulting as a career and helpful pointers to potential clients.

THE MANAGER'S GUIDE TO INTERPERSONAL RELATIONS

by Donald Sanzotta
AMACOM
1979, 192 pp., $10.95

This book discusses the principles of interpersonal relations and how they can be applied in the work environment to improve both management performance and employee morale. It advocates the therapeutic management approach to personal development.

36 SMALL BUSINESS MISTAKES—AND HOW TO AVOID THEM

by Mark Stevens
Parker Publishing Co.
West Nyack, NY 10994
1978, 191 pp., $10.95

Following the premise we can learn through the mistakes of others this book explores some of the more common business blunders. The author's prescriptive approach is designed to guide the entrepreneur around the dangers of running a business.

THE SKILLS OF SELLING

by Roger Seng
AMACOM
135 W. 50th St.
New York, NY 10020
1978, 253 pp., $12.95

This volume provides a systematic training device which can be utilized by the individual salesman for self-improvement, or applied to sales staff development. It includes learning exercises to help reinforce the author's theories of selling.

A GUIDE TO THE SUCCESSFUL MANAGEMENT OF COMPUTER PROJECTS

by Hamish Donaldson
John Wiley & Sons, Inc.
605 Third Ave.
New York, NY 10016
1978, 266 pp., $24.95

The purpose of this book is to provide a complete and authoritative guide to managing all phases of a computer project from scratch. It covers both main-frame and minicomputers along with batch mode and on-line systems.

CAREER LIFE PLANNING FOR AMERICANS: AGENDA FOR ORGANIZATIONS AND INDIVIDUALS

by Patrick J. Montana
and Margaret V. Higginson
AMACOM
1978, 204 pp., $17.95

The authors present the career life planning approach to career development. They illustrate their work with examples drawn from career life planning projects now in effect. A helpful list of additional readings is included for further study.

* * *

Readers are invited to submit titles of books that they wish to call to the attention of others.

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STATISTICAL INDICATORS OF SOUTH CAROLINA BUSINESS

ITEMS	August 1979	August 1978	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 2,970	$ 2,787	+ 6.6
Demand	1,582	1,531	+ 3.3
Time	1,390	1,239	+12.2
Loans, Member Banks ($ millions)	2,049	2,136	- 4.1
Savings in Savings and Loan Associations ($ millions)	4,977	4,569	+ 8.9
Sales and Use Tax Collections ($ thousands)	43,477	41,714	+ 4.2
Labor Market:			
Civilian Labor Force (thousands)	1,338.0	1,360.5	- 1.7
Employment	1,277.5	1,302.7	- 1.9
Rate of Unemployment (percentage)	4.5	4.2	+ 7.1
Nonfarm Wage and Salary Employment (in thousands)	1,167.9	1,111.6	+ 5.1
Manufacturing	390.7	385.0	+ 1.5
Contract Construction	65.7	74.0	-11.2
Transportation and Public Utilities	50.8	48.9	+ 3.9
Wholesale and Retail Trade	222.1	210.9	+ 5.3
Finance, Insurance, and Real Estate	46.5	44.6	+ 4.3
Services, Mining, and Miscellaneous	160.0	141.3	+13.2
Government	232.1	205.0	+13.2
Average Hourly Earnings, All Manufacturing (in dollars)	$ 5.16	$ 4.76	+ 8.4
Initial Unemployment Claims Filed in South Carolina	15,761	21,246	-25.8
Placements by South Carolina Employment Offices (nonagricultural)	7,871	8,382	- 6.1
Indexes of Prices Received by Farmers (1966-68=100)			
All Farm Products	193	194	- 0.52
All Crops	206	208	- 0.96
Livestock and Products	185	197	- 6.1
S.C. Parity Ratio	87	88	- 1.1
New Motor Vehicle Registrations			
Cars	11,482	12,282	- 6.5
Trucks	3,550	3,605	- 1.5

	August 1979	August 1978	First 8 Months 1979	First 8 Months 1978	Percentage Change
Valuation of Building Permits Issued ($ thousands)					
Total for all S.C. Counties	$175,966	$134,902	$1,249,242	$957,003	+30.5
Available County Data					
Aiken	3,606	2,310	42,406	34,992	+21.2
Berkeley	5,026	4,734	34,922	47,217	-26.0
Charleston	16,855	12,727	144,557	101,739	+42.1
Dorchester	3,604	3,882	36,543	25,621	+42.6
Lexington	9,118	9,950	64,521	47,435	+36.0
Richland	7,582	8,515	90,623	55,905	+62.1
Greenville	13,244	9,809	133,908	91,074	+47.0
Pickens	3,396	2,553	26,059	21,571	+20.8
Spartanburg	26,782	5,045	97,539	61,430	+58.8

[a] Less than one-half of 1 percent.

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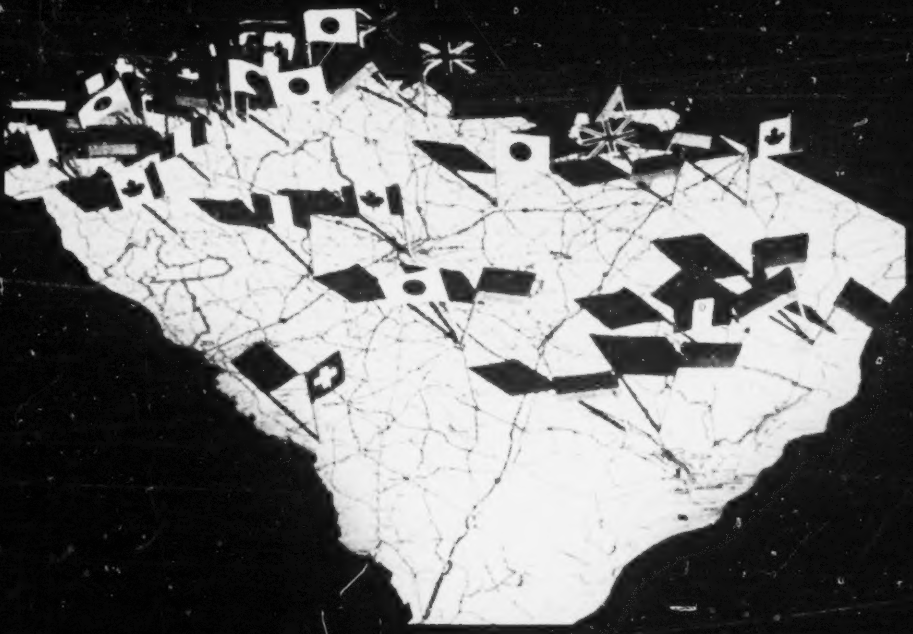

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by Jeffrey S. Arpan

"The Uniform Guidelines on Employee Selection Procedures: A Retreat from Reason?"
by William H. Mobley

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by James J. Baldwin

"Bottom Lines"
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The Uniform Guidelines on Employee Selection Procedures: A Retreat from Reason? Dr. William H. [illegible], active researcher, author, and consultant on EEO/OFCCP issues, takes a hard look at the Alice in Wonderland world of EEO and discusses the effects of its Uniform Guidelines on employee selection procedures.

The Employer and Employment Laws, a regular feature by James J. Baldwin, Partner in the law firm of Haynsworth, Baldwin and Miles. In this month's column, **Backdoor Unionization: The National Labor Relations Board Can Require a Company to Bargain with a Union Even If the Union Never Wins an Election.** Baldwin tells how the National Labor Relations Board's authority to require a company to bargain with a union even if that union never wins an election can be a backdoor to unionization.

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This month's cover: "Foreign Investment in the U.S.: Boon or Bane?" See page 3 of this issue.

Foreign Investment in the U.S.: Boon or Bane?

By Jeffrey S. Arpan

Picture, if you will, a typical day in the life of a typical American family.

After awakening to the alarm of their Panasonic clock radio, they brush their teeth with Aim or Pepsodent, and shower with Lifebouy, Yardley, or Dove soap. The husband shaves with his Norelco shaver, and puts a little dab of Brylcreem on his hair. Suffering from a slight hangover from the previous evening's overconsumption of Segrams or Four Roses whiskey, he takes an Alka-Seltzer or two. His wife, in anticipation of a hectic day with children and housecleaning, takes a Valium while the kids get dressed in their Jaeger sportswear. At breakfast, the family has some Libby's fruit cocktail; toast spread with Imperial margarine; Ovaltine or Nestlé's hot chocolate for the kids; Taster's Choice or Nescafé coffee (perhaps prepared in their Mr. Coffee), or Tetley or Lipton tea for the parents; and a One-A-Day vitamin for everyone. As the parents watch the morning news on their Magnavox TV, the young children read **Humpty Dumpty Magazine.** The oldest son listens to a Grand Funk Railroad album on the Capitol Records label on his Pioneer stereo, while the oldest daughter reads one of Rona Barret's gossip magazines. Before leaving the house, the husband puts out his Kool cigarette, the wife takes a Tic Tac, and the son hides his Zig-Zag papers. They then hop in their VW Rabbit (with Michelin tires), and stop for gas at the nearby Shell or BP station. After dropping everyone else off, the wife stops at Saks or Gimbels, does some foodshopping at Grand Union or Bi-Lo, and has a snack at Howard Johnson's before returning to her Hooker Barnes-built home to do some housecleaning with her Eureka vacuum, Wisk, and Clorox.

There may not appear to be anything unusual about this typical family's typical day — unless you are aware that every product mentioned is made, and every place of business mentioned is owned, by a foreign investor in the U.S. The general public's lack of awareness and/or concern over this fact is due essentially to the recognition that these products and places provide good value and reliability, regardless of who makes them or owns them.

This phenomenon, however, is in sharp contrast to the growing negative concerns expressed by many people in the U.S. during the past five years over the same subject of foreign investment in the U.S. In fact, if you were to accept as gospel everything you read in the papers, you might well

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Dr. Jeffrey S. Arpan is currently Professor of Accounting and a full-time member of the Institute of International Business in the College of Business Administration at Georgia State University. In the fall of 1980, Dr. Arpan will be joining the faculty of the USC College of Business Administration as Professor of International Business. At age 24, he was the youngest person ever to receive a doctoral degree from Indiana University's School of Business where his dissertation won the first place prize in the Academy of International Business' international dissertation competition. Widely recognized as an expert in the field of foreign investments in the United States, Dr. Arpan has done pioneering work in that area that has resulted in an invitation to testify before several Congressional subcommittees investigating this topic, and an appearance on a CBS television news special. His **Directory of Foreign Manufacturers in the U.S.** was selected as 1 of the 44 best new reference books of 1975 by the National Association of Libraries, and has been published recently in a revised edition. Dr. Arpan has also authored or coauthored 3 other books: **Corporate Responses to Import Competition in the U.S. Apparel Industry, International Business Blunders** (also printed in Japanese), and **International Intracorporate Pricing: The Non-American Systems and Views.** He is Director of an annual program for Japanese businessmen, the only one of its kind in the United States, cosponsored by the International Educational Exchange and Georgia State University at Georgia State. He is also a regular participant in the Georgia Export and Import Workshops offered each year to the Southeastern business and professional communities, and has served as Southern Region Chairman and Vice-President of the Academy of International Business. Dr. Arpan is a member of the International Division of the American Accounting Association, and serves on the Editorial Board of **The Journal of International Business Studies.**

believe that under every American bed, in every U.S. corporate boardroom, and on every American farm there lurks a robed Arab, a kimonoed Japanese, or a well-tailored European, posed to buy or eagerly buying everything and anything for sale in America. Throughout the 1970's, such rumors of massive land purchases and corporate takeovers by foreigners virtually became daily news items in the American press, and prompted the subject of foreign investment in the U.S. to become a frequent and often vehement subject of controversy. Expressions of concern have emanated from such diverse groups as farmers, businessmen, organized labor, and politicians. At the same time, many other Americans have advocated the desirability of these investments for the U.S., including, in some cases, members from the same groups who oppose them! Furthermore, despite the fact that foreign investments have been a part of the American economy and way of life since colonial times, over the past few years the controversy has resulted in several major congressional investigations and the introduction of more than 80 bills concerning foreign investments in the U.S.

Rhetoric and emotion set aside, there are really three central issues to be considered: (1) What is the true extent of foreign investment in the U.S.? (2) Does the U.S. have the wherewithal to control such investments? (3) Are the overall impacts of these investments beneficial to the U.S.? The answers to these questions are essential in putting into proper perspective the phenomenon of foreign investment in the U.S., and are the major subjects of this article.

FOREIGN INVESTMENT DEFINED

In its broadest sense, the term "foreign investment in the U.S." refers to the ownership of a U.S. asset by a person who is not a resident or citizen of the U.S. Thus it includes foreign ownership of U.S. bonds, securities, companies, land, and other commercial property. Distinctions can be made (and are often appropriate) between **portfolio** investments and **direct** investments. The essential distinction concerns the intent of the owner-purchaser: does he or does he not desire to **control** the asset (to exercise decision making power over its operations disposition). In the case of portfolio investments, typically short-term securities, notes, and bonds, the answer is no. In the case of direct investments, typically 10 percent or more of the voting stock of a company or the ownership of an asset (such as land), the answer is yes. Even though the amount of foreign portfolio investment in the U.S. is larger than that of direct investment, in general there has been more concern about **direct** investment for this reason of "control." Therefore, most of the discussion and analysis of this article will focus on the phenomenon of direct investment, except when otherwise noted.

THE EXTENT OF FOREIGN INVESTMENT IN THE U.S.

The Static Picture

The most comprehensive and consistent statistics on foreign investment in the U.S. are those collected and published by the U.S. Department of Commerce. As of 1978, the amounts by major categories were as follows: total foreign investment in the U.S., $373,345; official foreign government investment, $175,113; other (nongovernment) investment, $198,232; and **direct** foreign investment, $40,831. As evident from these data, while foreign **direct** investment was not the largest category of foreign investment, it was, nonetheless, a significant one.

A more detailed breakdown of foreign direct investment in 1978 would show that the manufacturing sector dominated (40 percent), followed by trade (22 percent) and petroleum (19 percent). Within manufacturing, the leading industries were chemicals (35 percent), machinery (17 percent), primary and fabricated metals (16 percent), and food products (14 percent). By nationality, the eight largest investors in terms of value were The Netherlands (24 percent), The United Kingdom (18 percent), Canada (15 percent), West Germany (8 percent), Switzerland and Japan (7 percent), France (5 percent), and Belgium and Luxembourg (3 percent). As a group, these countries accounted for nearly 90 percent of total foreign direct investment (FDI) in the U.S. One other observation is noteworthy concerning the nationality of the foreign investors. Investments by OPEC countries were less than 1 percent of total FDI in the U.S. and were predominantly in real estate (61 percent). This indicates that OPEC investments have **not** been a major force in FDI in the U.S., as has often been assumed or reported.

A slightly different picture emerges if industries and nationalities are ranked by the **number** of investments, rather than the **value** of investments. For example, electronics ranked third, behind chemicals (first) and machinery (second), but ahead of food (fourth). In terms of nationality, the top eight countries are (in order) The United Kingdom, West Germany, Canada, France, The Netherlands, Japan, Sweden, and Switzerland. It is also evident that the average size investment (or average value per plant) of Dutch and Swiss direct investments in the U.S. is much larger than those of other countries, and that the average Japanese and German investments are relatively smaller in value.

One other interesting static comparison concerns the state location of foreign investments. Nearly one-third of all foreign investments are located in three Mid-Atlantic states: New York, New Jersey, and Pennsylvania. When the next six leading states (Texas, California, North Carolina, Illinois, Georgia, and Virginia) are added, nearly two-thirds of the investments are accounted for. Therefore, FDI in the U.S. is not a "widespread" phenomenon in terms of geographic location.

The Dynamic Picture

While the current status of FDI in the U.S. is interesting in and of itself, equally important is its dynamic aspect, i.e., its rate of growth. The growth rate of the value of FDI in the U.S. rose steadily and sharply from an average annual rate of 4.1 percent (from 1962-'67) to 8.6 percent (1968-'72) to 11 percent (1976-'77) to 18 percent (1977-'78). In terms of the number of firms, there was a 275 percent increase just from 1974 to 1978 (1,246 firms to 3,433 firms). In addition, there were marked increases in the investments from several heretofore insignificant investing countries such as Curacao, Panama, Ireland, and Greece, and a more even distribution in the industries and states that received the foreign investments. With regard to the latter, the sun belt states in particular registered dramatic increases in FDI during the latter half of 1970, both in value and number.

The Comparative Picture

In assessing the real significance of foreign investment in the U.S., the truly appropriate questions concern their size and rate of growth relative to **all** investment in the U.S. (domestic **and** foreign). While admittedly more difficult to estimate (due to statistical discrepancies and incomplete data), such a comparative analysis shows that FDI in the U.S. is not as extensive as one is often led to believe.[1] For example, from the 1960's through the early 1970's, FDI only accounted for approximately 1 percent of all new, nonresidential gross private fixed investments in the U.S. While its percentage increased by 1974, it still accounted for only 3.5 percent. In terms of more specific industry groups, FDI in the U.S. manufacturing sector accounted for no more than 6 percent of the total output of any single 2-digit SIC industry (although it did account for up to 30 percent in a few 4-digit SIC industries). In terms of firms, foreign investors own or control less than 2 percent of all U.S. companies that employ 50 or more persons. In terms of land, a recent government study showed that the percentage of U.S. land owned by foreigners was insignificant.[2] These figures clearly suggest that FDI in the U.S. is not as significant as has often been stated or inferred.

Another interesting perspective evolves when FDI in the U.S. is compared with U.S. direct investments abroad. In 1978, U.S. direct investment abroad totalled $168.1 billion while FDI in the U.S. stood at $40.8 billion. In terms of land, a U.S. Department of Agriculture study revealed that for every **1** acre of land in the U.S. owned by foreigners, the U.S. owns **5** acres of land abroad. These figures indicate that the U.S. commercial involvement abroad is considerably larger than that of foreign countries in the U.S.

Despite the fact, however, that such comparative perspectives show that FDI in the U.S. is not very significant when compared with either all direct investments in the U.S. or direct investments abroad, there continues to be considerable concern expressed in the U.S. about it. The more valid concerns center around FDI's impact in particular states or communities (i.e., concentrated land purchases in a small area), on particular issues (labor relations), and on the **potential** abuse of power by foreign investors, or the loss of U.S. control over its economic activity if FDI should become a truly significant percentage of all U.S. economic activity.

REMAINING ISSUES CONCERNING FDI IN THE U.S.

The Local Impact Issue

Despite considerable research on the subject of FDI in the U.S. on a national level, there have been only a few studies done on regional, state, or community levels. The most recent and extensive study published on a state level was done on foreign investments in Florida, by Mira Wilkins of Florida International University. There have also been reports on foreign investments in the states of Alaska, Alabama, Hawaii, Michigan, Pennsylvania, and Texas. To date, the only major regional study of FDI known to this author is currently being conducted by a team of researchers operating under the auspices of the Georgia World Congress Institute in Atlanta. This study, directed by the author of this article, focuses on the patterns of FDI in the seven Southeastern states of Alabama, Florida, Georgia, North and South Carolina, Tennessee, and Virginia. While complete results are not anticipated until mid-1980, preliminary findings indicate a dramatic increase in FDI in the Southeast from 1970 to 1979 (and particularly after 1974), with significant favorable impacts on each recipient state in terms of economic growth and employment. The kinds of impacts FDI can have on a particular community can be seen from an article entitled "Foreign Investments in the U.S.: Their Impact on Three Southern Communities" in the March-April 1974 issue of the **Atlantic Economic Review** and a recent HUD study entitled **The Impact of FDI on U.S. Cities and Regions** (February 1979).

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[1] The following comparative analysis was made from the data published in the U.S. Department of Commerce's **Benchmark Survey of FDI in the U.S. (1975).**

[2] U.S. General Accounting Office, **Report by the Comptroller General of the U.S.: Foreign Ownership of U.S. Farmland — Much Concern, Little Data** (Washington, D.C.: Government Printing Office, June 12, 1978).

From most, if not all, of the regional, state, and community perspectives, it is clear that the central issue is not whether FDI is beneficial, because they conclude that it **is** beneficial. Rather, the major issue appears to be how can they attract **more** FDI to their areas. The fact that in 1978 the seven Southeastern states as a group spent approximately $2 billion in their promotional activities to attract FDI clearly indicates the importance they attach to courting foreign investors for their states and obtaining the resulting benefits from FDI.[3] Furthermore, it underscores the fact that while it doesn't particularly matter where the FDI goes from a national perspective, it **does** make a big difference from a state and community perspective.

The "Business Practice" Issue

The second major issue concerns whether or not foreign-owned firms behave (operate) differently in the U.S. as compared with U.S.-owned firms, and if they do, what difference it makes. Again, there has been no definite, all conclusive answer found to this question, although several studies have examined it. The **Benchmark Survey of FDI in the U.S.** conducted by the U.S. Department of Commerce concluded that, overall, there were no significant differences in the business practices of foreign-owned vs. U.S.-owned businesses in the U.S.[4] Other less comprehensive studies, in general, also reached the same conclusion. There were two basic reasons put forth for the similarities in operational practices. First, the uniqueness of the American market necessitates the use of American practices, even though such practices are not employed by the foreign investors either in their home countries or in their subsidiaries in foreign countries (other than the U.S.). Second, even though there have been a few isolated problems in terms of foreign firms discriminating in the employment area (in terms of nationality and/or sex), all U.S. subsidiaries of foreign companies are covered by, and must comply with, the appropriate U.S. laws (e.g., EEOA).

The "Control" Issue

The "control" issue concerns the ability of the U.S. government to exercise sufficient control over the U.S. subsidaries of foreign firms. That is, can the government prevent these firms from becoming too powerful and control and/or prevent them from abusing their power no matter how large or significant they become? The answer to both questions appears to be "yes," for the following reasons.

First, the sheer size and dynamics of the U.S. market, combined with the overall competitive strength of its large domestic companies, would prevent "foreign dominance" from occurring. Second, existing U.S. laws and regulations (such as antitrust) would prevent undue dominance of foreign-owned firms in the U.S. just as they prevent undue dominance by U.S.-owned companies from occurring. In addition, the U.S. already has the legal right and power (a) to take over any and all foreign investments in the U.S., and (b) to adopt new laws to restrict or prohibit future foreign investment if either is judged necessary in the nation's best interest. Finally, the U.S. Government has established a more comprehensive monitoring program with regard to foreign investment in the U.S. which puts it in a better position to assess trends and their impacts.

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[3] For an excellent comparative analysis of the promotional activities of these seven states to attract FDI, see Spero Peppas, "A Comparative Study of Promotional Activities to Attract Foreign Investment: An Application of Marketing Theory to the Efforts of the Southeastern States" (Ph.D. dissertation, Georgia State University, 1979).

[4] See especially the section of the report dealing with Industrial Relations and Management Practices, directed by Mike Jedel and Duane Kujawa.

PUTTING IT ALL TOGETHER

After examining the facts and realities of foreign investment in the U.S., it is clear that the phenomenon is far less significant than people have often assumed or been led to believe. In addition, the massive (nine-volume) and comprehensive **Benchmark Survey of FDI in the U.S.** by the U.S. Department of Commerce, and additional studies by other government agencies and private researchers, have shown that, in general, the U.S. has benefited from foreign investments and that it has the ability to control them. This is not to say that all foreign investments in the U.S. have been good beneficial or that they always will be. However, it does suggest that the subject of FDI in the U.S. should not be regarded as controversially as it has been, and that reasoned inquiry is far more appropriate than emotional rhetoric.

The Uniform Guidelines on Employee Selection Procedures: A Retreat from Reason?

By William H. Mobley

After several years of intergovernmental agency negotiations, the long awaited "Uniform Guidelines on Employee Selection Procedures" was published in the **Federal Register** on August 25, 1978.[1] On March 2, 1979, these agencies published in the **Federal Register** a Questions and Answers document intended to "clarify and provide a common interpretation" of the Uniform Guidelines.[2] The development of uniform guidelines on employee selection had been broadly recommended to remedy the ambiguous, incomplete, professionally inadequate, and sometimes conflicting separate guidelines various government compliance agencies were using.[3]

Unfortunately, the new **Uniform Guidelines,** as understood by this author, do not represent a model for effective human resource utilization and true equal employment opportunity without regard for race, color, sex, religion, or national origin. Rather, the **Uniform Guidelines** represent a retreat from reason.

Space limitations do not permit a complete critique here of the **Uniform Guidelines.** Thus, the purpose of this article is to highlight some of the major problems with the **Guidelines** and the subsequent Questions and Answers publication. Further, several suggestions are made for steps necessary to improve the situation.

ADVERSE IMPACT

The triggering mechanism for invoking the requirements of the Uniform Guidelines is "adverse impact." An employee selection process or components of the process are considered to have adverse impact when they disproportionately screen out members of a race, color, religion, sex, or national origin group for hiring, transfer, promotion, retention, or other employment decision. (It is important to note that the **Guidelines** extend far beyond hiring.)

Included in the requirements triggered by adverse impact are demonstration of validity (job relatedness) of employee selection procedures; search for alternative selection procedures with lesser adverse impact or modification or elimination of the procedure(s) that produce the adverse impact; and extensive documentation. More is said about these requirements in later sections.

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[1] U.S., General Services Administration, National Archives and Records Service, Office of the Federal Register, **Federal Register,** vol. 43 (August 25, 1978), Equal Employment Opportunity Commission, Office of Personnel Management, Department of Justice, Department of Labor, Department of Treasury, "Uniform Guidelines on Employee Selection Procedures," pp. 38290 ff.

[2] Ibid., vol. 44 (March 2, 1979), idem, "Adoption of Questions and Answers to Clarify and Provide a Common Interpretation on the Uniform Guidelines on Employee Selection," pp. 11995-12009.

[3] See William H. Mobley, "Meeting the Government Guidelines on Testing and Selection," **The Personnel Administrator** 19 (November 1974), 42-50. Reprinted in W. C. Hamner and F. L. Schmidt, eds., **Contemporary Problems in Personnel** (Chicago: St. Clair Press, 1977).

Given the importance of the concept of adverse impact, it seems incumbent on those issuing the **Guidelines** to articulate carefully how it is to be measured and evaluated. Unfortunately, the **Guidelines** treatment of adverse impact is seriously flawed in several major respects. For example, the **Guidelines** call for comparison of selection rates in determining adverse impact. Missing from the **Guidelines** is clear specification that comparisons of selection rates, whether based on applicants or labor market, should be based on numbers of **qualified** individuals in the relevant applicant pool or labor market. Failure to specify "qualified" in the case of applicant-based comparisons and "available-qualified" in the case of labor market comparisons invites gross misinterpretation of selection rate comparisons. As Dunnette and Borman[4] noted, definitions of relevant labor markets and available supply that ignore qualifications or skills required by jobs, propensities to move, and information about job opportunities are absurd. Further, as Abraham[5] suggested, the **Guidelines** seem to emphasize applicant flow based determination of adverse impact while in fact the Supreme Court has used several definitions.

Another related major problem in the **Guidelines** treatment of adverse impact is the "80 percent rule of thumb." This is interpreted to mean that when the selection rate for any race, sex, or ethnic group is less than 80 percent of the selection rate for the group with the higher selection rate (presumably whites or males although not so specified), a finding of adverse impact will "generally" be indicated. For example, if the male selection rate is 60 percent and the female selection rate is 45 percent, adverse impact would be indicated since 45 percent/60 percent is less than 80 percent. Among the problems with the "80 percent rule" are: it is a ratio of ratios and thus obscures sample sizes; it does not reflect the extent to which differences could have occurred by chance alone; it is influenced by the sizes of the ratios involved, e.g., 81 percent/100 percent would not violate the 80 percent rule while 4 percent/6 percent would; and, as noted in the previous paragraph, it does not specify qualified applicants in the selection rate ratios.

The measurement and evaluation of adverse impact is in need of much more careful specification from both logical and statistical perspectives. Given the importance of this concept, a more reasoned approach is critical.

VALIDATION REQUIREMENTS

If adverse impact is established, the employer who wishes to continue using the selection procedure is required to demonstrate the validity (job relatedness) of the selection procedure(s). There should be little argument with the need to evaluate the validity of employee selection procedures. Quite independent of compliance concerns, an employer should want to know, for business reasons alone, if the organization's selection procedures are job related. However, if adverse impact is clearly established, demonstration of job relatedness becomes a legal requirement.[6]

It is important that employers recognize that **Guideline** requirements apply to **any** employee selection procedure with an adverse impact, **not** just to selection processes that use traditional paper and pencil tests. Thus, for example, employers relying on the interview as the primary employee selection procedure are subject to the **Guidelines** requirements if the selection process results in adverse impact.[7] The performance appraisal, if used to make promotion decisions and if resulting in adverse impact, is subject to the **Guidelines** requirements.

A major problem in the **Uniform Guidelines** is the treatment of validity. While this is not the forum for detailed technical analysis, it is important to note that the **Guidelines** are not internally consistent, and deviate in a number of significant ways from professional standards[8] and recent research findings.[9]

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[4] M. D. Dunnette and W. C. Borman, "Personnel Selection and Classification Systems," **Annual Review of Psychology** 30 (1979) 477-525.

[5] T. G. Abraham, "Overview of the Uniform Selection Guidelines: Pitfalls for the Unwary Employer," **Industrial Relations Research Association Proceedings** (April 1979), pp. 495-502.

[6] **Griggs v. Duke Power**, 401 U.S. 424.

[7] See, for example, R. D. Gatewood and J. Ledvinka, "Selection Interviewing and EEO: Mandate for Objectivity," **The Personnel Administrator** 24 (December 1979) 51-54.

[8] For example, American Psychological Association, **Standards for Educational and Psychological Tests** (Washington, D.C.: American Psychological Association, 1974); and American Psychological Association, Division of Industrial Organizational Psychology, **The Principles for the Validation and Use of Personnel Selection Procedures** (Dayton, Ohio: American Psychological Association, Division of Industrial-Organizational Psychology, 1975).

[9] See, for example, F. L. Schmidt and J. E. Hunter, "Development of a General Solution to the Problem of Validity Generalization," **Journal of Applied Psychology** 62 (1977) 529-40, and J. E. Hunter, F. L. Schmidt, and J. M. Rauschenberger, "Fairness of Psychological Tests: Implications of Four Definitions for Selection Utility and Minority Hiring," **Journal of Applied Psychology** 62 (1977) 1245-60.

For example, while the **Guidelines** seem to recognize the several forms of validity (i.e., criterion related, content, and construct), the Questions and Answers publication suggests that a predictive criterion study is often regarded as closest to an ideal. Professional standards would suggest that this is not necessarily the case. Further, the treatment of ranking applicants, cutoff or qualifying scores, transportability of validity findings from one location or unit to others, requirements for "full job analysis," fairness, content, and construct validity are among the plethora of issues that are inadequately, inconsistently, and/or inappropriately dealt with in the **Guidelines** and supporting Questions and Answers.

These, and other, problems in the **Guidelines** are of sufficient severity that the American Society for Personnel Administration, the International Personnel Management Association, and the American Psychological Association's Division of Industrial Organizational Psychology have sent telegrams to President Carter withdrawing support for the **Uniform Guidelines.** If government compliance agencies are going to promulgate guidelines on employee selection procedures, is it not reasonable that such guidelines reflect professional standards and the current body of knowledge relevant to such guidelines?

ALTERNATIVE SELECTION PROCEDURES

The **Uniform Guidelines** reflect an emphasis not evident in earlier guidelines. For employee selection procedures resulting in adverse impact, **even when validity is demonstrated,** the organization must now show that it has investigated alternative selection procedures that will achieve its purpose with lesser adverse impact. "When selection procedures with substantially equal validity are found, the employer should use the procedure with lesser adverse impact."

There should be little quarrel with the need for employers to investigate and adopt alternative selection procedures that have equal or higher validity and lesser adverse impact. However, the **Guidelines** "substantially equal validity" is ambiguous and inconsistent with the fact that **higher** validity, even by a few points, will lead to the selection of more individuals with a higher probability of success.

SUBSTITUTION OF ADVERSE IMPACT OF VALIDITY

An explicit change in emphasis has developed in the **Uniform Guidelines** as contrasted with professional standards and earlier guidelines. This change is the explicit substitution of adverse impact elimination for validity. Earlier guidelines and the Supreme Court (**Griggs v. Duke Power**) have required that employers show job relatedness (validity) if the employee selection process has adverse impact. As noted earlier, there should be no argument with this requirement. The **Uniform Guidelines,** however, go far beyond this. Even a casual reading of the **Guidelines** leads to the conclusion that the objective is no longer job related (valid) employee selection without regard to race, color, sex, religion, or national origin. Rather, the objective is to compel employers to eliminate adverse impact in selection procedures, whether or not the decision rules are valid.

Thus, for example, the **Guidelines** advise employers: if you want to **avoid** validation requirements, you may not be in compliance with the **Guidelines** because there **may** exist alternative selection techniques with "substantially equal" validity (note, not equal or higher validity) with lesser adverse impact; compliance agencies may generalize adverse impact from elsewhere with far less stringency than required if the employer seeks to show generalizability or transportability of validity studies from elsewhere.

Dr. James Sharf, former EEOC psychologist, recently argued that the **Guidelines** have not only substituted a "numbers game" for "competence," but also have gone beyond both the intent of Congress and the precedent of Supreme Court case law.[10] The substitution of equivalent selection rates for selection procedures that are job-related, valid, and blind to race, color, sex, religion, and national origin, represents a clear retreat from reason.

CONCERN AND ACTION

Given this nation's problems with inflation, balance of payments, and lack of productivity growth, it would seem more important than ever that efficient use of human resources be a primary goal. Job-related employee selection and upgrading is one important part of efficient human resource management. Further dilution of employers' responsibility and right to select and upgrade employees on valid, job-related, race, ethnic, sex blind bases is counterproductive.

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[10] J. C. Sharf, "Uniform Guidelines: Competence or Numbers," in **Equal Employment Practice Guide**, ed. K. S. McGovern (Washington, D.C.: Federal Bar Association, March 1979).

This author has argued elsewhere[11] that it is not in the best interest of individuals, organizations, or the nation for those concerned with equal employment opportunity to confound what are essentially two separate issues. The issue of valid selection based on predicted or demonstrated job relevant criteria should be distinguished from the equally important issue of what activities, programs, or procedures can be undertaken effectively to develop and utilize individuals for whom job success is presently improbable. The **Uniform Guidelines** completely confound these issues.

If progress is to be made toward more efficient use of human resources and true equal employment opportunity, all interested parties, be they government, social action groups, personnel professionals, industry associations, or academicians, should be emphasizing two goals. First, the further development and implementation of job-related-valid, race, ethnic, sex blind, employee selection procedures should be encouraged. Second, all parties concerned should be working to develop and implement policies, programs, and incentives to build job competence and to render qualified those individuals for whom job success presently is not probable. Such dual goals represent a reasoned approach. Obfuscating these dual goals and substituting percentage selection and upgrading for job relatedness and qualification represents a retreat from reason as evidenced in the **Uniform Guidelines.** The dual emphasis should be on insuring valid qualification **and** helping individuals become qualified. Redirection of portions of compliance agency budgets toward development of job qualified individuals; redirection of portions of employer costs now devoted to government reporting toward development of effective qualification training programs; development of results based tax and other incentives for individuals, employers, and educational institutions to develop job qualified individuals; and research support from both the private and public sectors directed at the dual emphasis discussed above are but a few of the actions that could be taken.

The **Guidelines** were issued by Federal Executive Agencies and thus are administrative guides and not law. As such, the courts may choose to accept or reject such guidelines in total or in part as they see fit. Further, the Supreme Court is yet to hear a case involving the **Uniform Guidelines.**

It is imperative that individuals and groups who believe the Guidelines to be inadequate and/or misdirected make their criticisms known to both the legislative and executive branches of the Federal Government. Further, professional groups such as the American Society for Personnel Administration, the International Personnel Management Association, the American Psychological Association, the Equal Employment Advisory Council, etc., should be strongly encouraged to develop a professionally responsible set of employee selection guidelines which the courts, at their discretion, could contrast with the **Uniform Guidelines** and/or consult in evaluating employment practice cases. For those concerned with true equal employment opportunity and efficient human resource management, failure to be heard, to be suggesting alternatives, to be working toward the dual objectives discussed above, is to invite further retreat from reason.

POSTSCRIPT

After this article was written, EEOC announced in the November 2, 1979, **Federal Register** that it would be holding hearings in early 1980 on the relationships among job evaluation, wage determination, and pay discrimination. These hearings may well be a precursor to EEOC guidelines on wage determination. If such guidelines are forthcoming and follow the same pattern as the employee selection guidelines, a job evaluation system that leads to differential pay rates across jobs with, for example, predominantly males or females, could lead to a determination of adverse impact.

Just as validity has become a secondary issue in employee selection, so labor market economics and job evaluation may become a secondary issue in wage determination. The reader is encouraged to monitor developments on this issue closely and to make his thoughts known to the legislative and executive branches of government.

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[11] Mobley, "Meeting the Government Guidelines."

The Employer and Employment Laws

By James J. Baldwin, LL.D.

The Employer and Employment Laws is a regular feature. Suggestions and inquiries by readers are invited.

BACKDOOR UNIONIZATION: THE NATIONAL LABOR RELATIONS BOARD CAN REQUIRE A COMPANY TO BARGAIN WITH A UNION EVEN IF THE UNION NEVER WINS AN ELECTION

In the vast majority of cases, employers become unionized because their employees have voted for a union in an election conducted by the National Labor Relations Board (NLRB). However, such an election is not the only way an employer can be forced to bargain with a union. In certain situations the NLRB can require an employer to bargain with a union, even though the union has never won an election among that company's employees.

One way that unions gain bargaining rights is through "bargaining orders" issued by the NLRB. A bargaining order requires that the employer meet and confer in good faith with the union until there has been a reasonable opportunity for the bargaining to succeed. Such an order can be issued by the NLRB when it determines that the employer has committed sufficient "unfair labor practices" that make a fair election unlikely. In the case of **NLRB v. Gissel Packing Co.,**[1] the Supreme Court identified two categories of unfair labor practices that can lead to a bargaining order against a company: (1) "outrageous" and "pervasive" violations of the labor laws that might warrant a bargaining order without the union having obtained majority support; and (2) "less pervasive" violations committed after the union achieved majority support and which have the tendency to undermine the union's majority and impede the election processes. For every bargaining order that has been issued since **Gissel** was decided, the NLRB has required the union to show that it had the support of a majority of employees before the employer committed any unfair labor practices.[2] Typically, the NLRB allows the union to prove its majority status by showing that more than 50 percent of the company's employees who are eligible to vote signed "union authorization cards." If a company, or the company's supervisors, have committed certain types of unfair labor practices after the union obtained signatures on these cards from a majority of the employees, a bargaining order can be issued.

One major problem with the NLRB bargaining orders in these "card cases" is that these cards do not accurately reflect employee support for the union. It is fairly easy for a union organizer to pressure an employee into signing a card, even though that same employee may not wish to vote for a union in a secret ballot election. Some employees may sign a card merely to get an NLRB election on the question of the union, reserving their opinion on the union until they have heard all the facts. These employees normally do not know

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[1] 395 U.S. 575 (1969).

[2] In the **Gissel** case, the Court stated that the Board might be able to require the employer to bargain even if the union had never obtained majority status if the employer had engaged in "outrageous" and "pervasive" unfair labor practices. So far, the Board has failed to do so, even though it has said it would in the proper case. See, e.g., **United Dairy Cooperative Association**, 242 NLRB No. 179 (1979).

that the union may use the signed cards to get an NLRB bargaining order against the company without having won a secret ballot election.

Once a union obtains a card majority and files unfair labor practice charges, the NLRB will determine whether the employer engaged in the type of conduct that will support a bargaining order. For example, in **Raley's Inc.**[3] the employer conducted three meetings with employees prior to the election. At these meetings management officials informed the employees that they "could make no promises or commitments because the law precluded it." Nevertheless, the Board found the employer unlawfully solicited grievances and implied a promise of benefits. This, along with the wage increase given by the employer prior to the election, led the NLRB to issue a bargaining order. Other recent cases reveal that the Board found the following to be the types of unfair labor practices that would help support a bargaining order: granting a Christmas bonus "to induce the employees to renounce the union"[4]; requiring employees to address the company president as "Mr."[5]; threatening employees with institution of timeclock procedures[6]; and before the election, changing the method of calculating holiday pay so some employees received higher pay.[7] From the above, it is readily apparent that an unsuspecting employer could easily engage in numerous unfair labor practices sufficient to support a bargaining order. Of equal importance is the fact that an employer's "supervisors"[8] can likewise engage in conduct that can lead the NLRB to issue a bargaining order. One example of such supervisory conduct is a statement that the plant will close if the union wins an election.[9]

There are also other ways that a union can force the employer to bargain without having to resort to the ballot. If an employer unilaterally attempts to determine majority status by means other than a Board election (e.g., polling employees), the employer may have to bargain. For example, in **Idaho Pacific Steel Warehouse Co.,**[10] a union told the employer that it represented a majority of the employees and demanded that the employer bargain with the union. The employer responded that he did not believe the union represented a majority of his firm's employees and suggested that the signed authorization cards be submitted to an impartial third party for counting. The third party found the union had a sufficient number of cards to constitute a majority. The Board held that the employer by assenting to the card check must bargain regardless of whether or not the card check was intended to create a binding obligation to bargain with the union. Obviously, a plant manager or other company official must be careful not to handle signed union cards, in order to avoid any NLRB finding that he has conducted his own card check, verified the union's majority status, and must therefore bargain with the union.

How employers can inadvertently become bound to recognize a union is demonstrated in two other recent cases. In **Brown and Connolly, Inc.,**[11] the NLRB held that the employer voluntarily agreed to union representation for his firm's employees and thus had to bargain with the union. A majority of the nonsupervisory employees walked into the employer's office. Each of the employees was wearing a union button. The employer was asked if he recognized the group as a majority of his employees, and he acknowledged that a majority was indeed present. There was some testimony to the effect that the employer agreed to meet and negotiate with the union at a later date. Thus, the NLRB held that the employer could not withdraw recognition from the union and that he must engage in collective bargaining until "there has been a reasonable opportunity for the bargaining to succeed."

In a similar case, **Jerr-Dan Corp.,**[12] the employer also "voluntarily" agreed to meet and bargain with a union. Union representatives presented the company President with 33 signed authorization cards out of a unit of 45 employees. The President apparently examined the cards and said that he believed "you got them all." The union representatives then said that the employer should recognize the union and negotiate a contract. "Having credited the union's witnesses," the NLRB concluded that the President agreed to recognize the union and to begin contract negotiations with it. Shortly thereafter, the President sought legal advice and refused to recognize the union absent an election. However, the NLRB concluded that once the commitment to bargain was made, the employer "could not unilaterally withdraw recognition and to do so was a violation of the [law]." The NLRB made this finding even though the Administrative Law Judge who initially heard the case noted that much of the evidence was based "on the frailties of oral testimony."

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[3] 236 NLRB No. 97 (1978)

[4] **Machine Tool and Gear Co.**, 237 NLRB No. 172 (1978)

[5] **Philadelphia Ambulance Service**, 238 NLRB No. 152 (1978)

[6] **L'eggs Products Inc.**, 236 NLRB No. 43 (1978)

[7] **Apple Tree Chevrolet, Inc.**, 237 NLRB No. 103 (1978)

[8] See National Labor Relations Act § 2(11), 29 U.S.C. 152(11) (1973)

[9] **Publishers Printing Co., Inc.**, 233 NLRB 1070 (1977)

[10] 227 NLRB 326 (1976)

[11] 237 NLRB No. 48 (1978)

[12] 237 NLRB No. 49 (1978)

In summary, an employer can be ordered by the NLRB to meet and negotiate with the union as a result of several situations, none of which require an NLRB-conducted election. If the union has proof that it represented a majority of employees before the employer (or his supervisors) committed certain types of unfair labor practices, the Board may issue a bargaining order. It is also possible for an employer to recognize a union inadvertently (for example, by verifying the union's cards) without specifically intending to incur an obligation to bargain. It can easily be seen how the unsuspecting employer can fall into the bargaining order trap by saying or doing the wrong thing. To avoid this trap, the employer, as well as the employer's supervisors need to be aware of how to avoid unfair labor practices and how to avoid inadvertantly recognizing a union's claimed majority, once the union appears on the scene. Front-line supervisors need to be trained how to avoid committing unfair labor practices, because they are in constant contact with the rank and file employees. When an employer is forced by the NLRB to bargain with a union, absent the union's winning a secret ballot election, not only does the employer lose but the employees as well. It is the employees who ultimately have a union thrust upon them without their having had either a full opportunity to hear all the facts about the union or the privilege of expressing their informed choice by way of a secret ballot.

Bottom Lines

By James B. Edwards, Ph.D., C.P.A., C.M.A., C.I.A., C.D.P.

Bottom Lines is a regular feature that brings attention to practical business taxes and accounting. Suggestions and inquiries by readers are invited.

FEDERAL TAX LINES

This month's column focuses on a few special Federal tax breaks available to closely-held incorporated businesses.

LINE ONE

The best salary for a shareholder who is also an employee is the maximum amount payable at the minimum tax cost to both parties. For example, Gamecock Corporation has income of $200,000 before officers' salaries. The President is married and has other income equal to his deductions and exemptions. The best salary for tax purposes to pay this President is $45,800. Reason: Any increase would cost him at least 49 percent of his raise in taxes, while saving the Gamecock Corporation only 46 percent of the increase in taxes. In other words, the marginal tax rate within the relevant range of this illustration is 49 cents of each additional dollar of income for the President and only 46 cents of each additional dollar of deduction for the corporation. Rule: The best tax salary is that number beyond which any raise costs the employee more in taxes than it saves the company.

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Suggestion: Have your tax advisor calculate these numbers on each employee who is a stockholder.

Of course, there are other considerations in setting anyone's salary. If the salary is too high for a shareholder-employee, the IRS will deny the company a deduction for the excess amount, but continue to tax the excess amount to the individual as dividend income. In other words, the amount paid as compensation to such individuals must be reasonable in light of all the circumstances. The mathematical approach to figuring the best tax salary for a shareholder-employee helps to clarify the tax consequences of such decisions.

LINE TWO

Distribute inventory as dividends in kind. For example, Gamecock Corporation wishes to distribute a dividend to stockholders of $20,000 during a year in which taxable income is $200,000. However, the Corporation is short on cash and must sell inventory that cost $15,000 on a first-in, first-out basis for $20,000 in order to pay the cash dividend. The extra $5,000 ($20,000 - 15,000) of taxabl income from the sale of the inventory will cause the corporation in incur a Federal income tax of $2,300 on the sale. The total cost of the dividend to the corporation, therefore, is $17,300 ($15,000 of inventory plus $2,300 of Federal tax). If the South Carolina Corporate Income Tax is considered, the total cost is $17,462.

The corporation could distribute the inventory as a dividend in kind. The corporation would then save the $2,462 of income taxes. The stockholders could sell the inventory for $20,000 without recognizing any additional income other than the dividend income of $20,000 which would be recognized anyway. The basis of the inventory in the hands of the stockholders is the fair market value of $20,000 because the stockholders in this case are treated as noncorporate distributees. The cost of the dividend is then reduced to $15,000.

Warning: If the inventory were valued on a last-in, first-out basis, the excess of the last-in, first-out over the first-in, first-out value is income to the corporation.

LINE THREE

Set up a corporation-financed, group-term life insurance plan. The plan premiums are deductible as a business expense to the corporation. The premiums on the first $50,000 coverage are not taxed to the employee. The employee is taxed only on the corporation-paid coverage in excess of $50,000.

LINE FOUR

Set up a medical reimbursement plan. The corporation pays all the covered employees' medical and drug bills, including those of their dependents. The corporation gets a business expense deduction for the payments and the employees do not recognize these payments as income.

Warning: The plan should be in writing. The payments should not be discretionary, and there should not be any relationship between payments made and stock ownership. Only bona fide employees can be covered by such a plan.

No Harm in Asking: Employers' Liability for Supervisors' Sexual Conduct

By Charles A. Edwards*

When Title VII of the Civil Rights Act of 1964 was enacted, Congress tossed in, without debate, a provision prohibiting discrimination against employees and applicants due to sex. For a time, litigation under this portion of the statute focused on the more obvious inequities between male and female workers: "light" and "heavy" job classifications; segregation by sex without any real analysis of an individual employee's ability to perform the job's requirements; refusal to hire females for certain jobs due to fellow employee or customer "preference"; denial of supervisory positions to women based on the sexual stereotype that women are "not aggressive enough" or "do not display the necessary leadership qualities" for such jobs.

However, sex-based discrimination began to expand its horizons with the so-called "sex-plus" cases. Where sex coupled with some otherwise neutral factor resulted in a disproportionate impact upon males or females as a sex, more and more of such situations became the subject of Federal court actions. As an example, a rule against the employement of spouses appears neutral, but a rule against the employment of spouses promulgated by an employer who has never hired females creates a greater assurance that an identifiable group of females has been screened out of the hiring process. The Equal Employment Opportunity Commission, created to interpret and enforce Title VII, has taken a very expansive view of the law's prohibitions, and plaintiffs' attorneys have been quick to bring such interpretations into court to obtain a judicial seal of approval on the agency's activism.

Recent trends in litigation under Title VII reveal a rash of statutory actions alleging that when an employer, employment agency, or labor organization's agent seeks to obtain sexual favors or engages in what has come to be called "sexual harassment,"[1] the aggrieved individual has a Title VII claim against the principal. It is undeniable that both societal attitudes and judicial perceptions have departed substantially from the traditional concept of the common law that, while an intended compliment manifested in kissing an unappreciative and nonconsenting woman constitutes battery, absent an apparent and imminent ability to engage in such a battery, "there's no harm in asking."

James E. Clyburn, Commissioner of the South Carolina State Human Affairs Commission (SHAC), has urged the Legislature to give SHAC specific authority to investigate sexual harassment complaints. Speaking in the Commission's "Bulletin" (Vol. 4, No. 5, Summer 1979), Clyburn stated:

> I consider any attempt to base employment opportunities, job advancement, or working

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[1] One recent text defines the term as "unsolicited nonreciprocal male behavior that asserts a woman's sex role over her function as a worker." L. Farley, **Sexual Shakedown** (New Jersey: McGraw-Hill Book Co., 1978), pp. 14 and 15. Note that the author of that definition, a female, adopts the premise that only women can be harassed sexually.

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> conditions, upon the satisfaction of one's sexual desires as being sordid, sadistic, and reprehensible. It is an unjust use of power and therefore, by definition, a violent abuse of authority. . . . The extraction of sexual privileges under fear or duress is, in my opinion, no more or less than white-collar rape.

The most-quoted legal precedent on this point also contains an explanation of the employer's potential exposure for such conduct by his agent. In **Western Union Telegraph Co. v. Hill,** 25 Ala. App. 540, 150 So. 709, **cert. denied,** 272 Ala. 469, 150 So. 711 (1933), Judge Samford first agreed with the jury's finding that the defendant's agent, speaking from behind a tall counter while reaching toward the hand of plaintiff's wife, had committed no assault by saying, "If you will come back here and let me love and pet you, I will fix your clock." Then, proceeding to the question of Western Union's liability had an assault been found, the court made the following pithy observation:

> [T]he assault in this case, if committed, was clearly from a motive or purpose solely and alone to satisfy the sensuous desires of Sapp [the agent], and not in furtherance of the business of the defendant . . . Sapp . . . stepped aside wholly from his master's business to pursue a matter entirely personal.

While the focus of these early tort decisions is on conduct directed toward a **customer**, the Title VII decision are instead concerned with advances toward an **employee.**[2] Further, while the tort cases involve intentional actions that are arguably imputable to the agent's employer, Title VII's protection against discrimination "because of [an] individual's sex" has been treated in some cases as if it imposed liability in the absence of intent where the employer's "negligence" has entered into the picture.

When the definitive text on discrimination law was published three years ago, only one brief paragraph was devoted to the topic, "sexual favors as a condition of employment opportunities." That paragraph, without its footnotes, is quoted here in its entirety.

> We are aware of two district courts which have considered whether or not a supervisor's alleged requirement of sexual favors for a subordinate's continued employment or advancement constitutes sex discrimination under Title VII. They reached opposite conclusions. In **Corne v. Bausch & Lomb, Inc.,** the court held that a male supervisor's alleged requirement of sexual favors from a female subordinate was a frolic and detour of the supervisor and was not to be imputed to the employer. In **Williams v. Saxbe,** the court adopted the disparate treatment analysis rejected in **Corne. Williams** held that Title VII was applicable where male supervisors required sexual favors of female subordinates but not male subordinates. This, the court found, created barriers to equal employment opportunities for females not imposed upon males.[3]

Corne and **Williams** were not, however, the only decisions in existence when the Schlei and Grossman text went to the printer. One of the earliest cases in point was **Barnes v. Train,** a 1974 decision of the U.S. District Court for the District of Columbia which was later reversed on appeal:

> Appellant, a black woman, was hired by the director of the Agency's equal employment opportunity division, who also is black, as his administrative assistant at grade GS-5. During a pre-employment interview, she asserts, he promised a promotion to grade GS-7 within ninety days. Shortly after commencement of the employment, she claims, the director initiated a quest for sexual favors by "(a) repeatedly soliciting [her] to join him for social activities after office hours, notwithstanding [her] repeated refusal to do so; (b) by making repeated remarks to [her] which were sexual in nature; (c) by repeatedly suggesting to [her] that if she cooperated with him in a sexual affair, her employment status would be enhanced." Appellant states that she "continually resisted [his] overtures . . . and finally advised him that notwithstanding his stated belief that many executives 'have affairs with their personnel,' she preferred that their relationship remain a strictly professional

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[2] While the statute also proscribes discrimination against other persons (**see generally** Sections 703 and 704, 42 U.S.C. §§ 2000e-2, 2000e-3. All reported decisions to date have dealt with employees offended by actions of their employer's agents. **Compare, Alexander v. Yale University,** 459 F.Supp. 1 (D.Conn. 1977), which found a cause of action under Title IX, 20 U.S.C. § 1681 (a), for a female student who claimed her poor grade in one subject had been occasioned by her rejection of her male professor's sexual demands. A companion claim for emotional distress, filed by another student who claimed awareness of such sexual harassment of her classmate, was dismissed.

[3] B. L. Schlei and P. Grossman, **Employment Discrimination Law** (Washington, D.C.: Bureau of National Affairs, 1976), p. 369.

> one." Thereafter, she charges, the director "alone and in concert with other agents of [appellee], began a conscious campaign to belittle [her], to harass her, and to strip her of her job duties, all culminating in the decision of [appellee's] agent . . . to abolish [her] job in retaliation for [her] refusal to grant him sexual favors." These activities, appellant declares, "would not have occurred but for [her] sex."
>
> After seeking unsuccessfully an informal resolution of the matter, appellant, acting pro se, filed a formal complaint alleging that the director sought to remove her from his office when she "refused to have an after hour affair with" him.

The district court viewed the complaint as no more than a claim "that she was discriminated against, not because she was a woman, but because she refused to engage in a sexual affair with her supervisor." However, while noting that "not every dissimilarity in employment conditions respectively set for the sexes impinges on Title VII," the court of appeals did state:

> [W]e think the discrimination as portrayed was plainly based on appellant's gender. Her thesis, in substance, is that her supervisor retaliated by abolishing her job when she resisted his sexual advances. More particularly, she states that he repeatedly told her that indulgence in a sexual affair would enhance her employment status; that he endeavored affirmatively but futilely, to consummate his proposition, and that, upon her refusal to accede, he campaigned against her continued employment in his department and succeeded eventually in liquidating her position. So it was, by her version, that retention of her job was conditioned upon submission to sexual relations — an exaction which the supervisor would not have sought from any male. It is much too late in the day to contend that Title VII does not outlaw terms of employment for women which differ appreciably from those set for men, and which are not genuinely and reasonably related to performance on the job . . . . Appellant's gender, just as much as her cooperation, was an indispensible factor in the job-retention condition of which she complains, absent a showing that the supervisor imposed a similar condition upon a male coemployee.

Then, addressing the employer's role in the matter somewhat obliquely, the court concluded:

> If the court meant that the conduct attributed to appellant's supervisor fell outside Title VII because it was a personal excapade rather than an agency project, no support for a summary judgment could be derived therefrom. Generally speaking, an employer is chargeable with Title VII violations occasioned by discriminatory practices of supervisory personnel. We realize that should a supervisor contravene employer policy without the employer's knowledge and the consequences are rectified when discovered, the employer may be relieved from responsibility under Title VII. But, so far as we are aware, the agency involved here is not in position to claim exoneration on that theory.

Judge MacKinnon, disagreeing with this aspect of the panel majority's reasoning, filed a concurring opinion in which he examined the scope of an employer's vicarious liability for acts of its agents. Referring to four decisions which had by that time been rendered concerning "sexual advances" under Title VII — **Tomkins v. Public Serv. Elec. & Gas Co.,** 422 F.Supp. 553 (D.N.J. 1976), **Williams v. Saxbe,** 413 F.Supp. 654 (D.D.C. 1976), **Miller v. Bank of America,** 418 F.Supp. 233 (N.D.Cal. 1976), and **Corne v. Bausch & Lomb, Inc.,** 390 F.Supp. 161 (D.Ariz. 1975) — Judge MacKinnon then analyzed the problem by stating that "the first hurdle is to determine whether the activity was within the scope of employment" and that "the tort involved in a sexual advance is committed entirely outside of the employment milieu." Applying analogous concepts of labor law as well as other principles of agency, he saw only three grounds upon which an exception to this rule could be predicated:

> 1) if ambiguous conduct might be violative of the statute, the employer is in the best position to know the real cause, and to come forward with an explanation; 2) the employer, not the employee, can establish prophylactic rules which, without upsetting efficiency, could obviate the circumstances of potential discrimination; 3) the type of conduct at issue is questionable at best, and it is not undesirable to induce careful employers to err on the side of avoiding possibly violative conduct.

With this carefully-structured test, the judge then explained the circumstances under which each factor would be applicable. As to point (1), the employer is liable

> whenever a plaintiff can show that, in addition to the particular sexual advance, and

> the retaliatory actions by the maker of that advance, other agents of the employer with knowledge of her assisted the retaliation or impeded the complaint. That type of showing suffices to shift to the defendant the burden of disproving that the [employer] had, at the least, a callous disregard of Title VII rights.

The second point was disposed of more readily. While Judge MacKinnon recognized that the problem was "unique" in that "its potential is not confined to working hours," he formulated a precautionary suggestion for employers:

> At the least, an employer should be free from vicarious liability if it 1) posts the firm's (or government's) policy against sexual harassment by supervisors, and 2) provides a workable mechanism for the prompt reporting of sexual harassment, which mechanism 3) includes the rapid issuance of a warning to the supervisor complained of, or the mere notation of a rejected sexual advance for possible future reference in case an issue is made of voluntariness, and 4) affords the opportunity of the complainant remaining anonymous.

Finally, point (3) was cast aside:

> Sexual advances may not be intrinsically offensive, and no policy can be derived from the equal employment opportunity laws to discourage them . . . . Accordingly, there is no justification under this rationale to impose vicarious liability upon an employer.

The foregoing discussion, while extensive, is set forth in such detail because Judge MacKinnon's concurring opinion is the most thoroughly-reasoned analysis the author has been able to find on the subject. Most of the other authorities in point are capable of easy categorization by reference to that analysis, as more fully appears below.

(1) **Corne v. Bausch & Lomb, Inc.**, 390 F.Supp. 161 (D.Ariz. 1975), **vac. without published opinion,** 562 F.2d 55 (9th Cir. 1977): The trial court used a strict approach toward the liability of the employer, ruling that even if verbal and physical abuses by plaintiff's supervisor were proved, and that even if the employees terminated their employment due to such advances, there was no policy of the employer furthered by the alleged conduct, and no benefit to the employer; consequently, such advances were beyond the scope of the supervisor's representation of the employer:

> It would be ludicrous to hold that the sort of activity involved here was contemplated by the Act because to do so would mean that if the conduct complained of was directed equally to males there would be no basis for suit. Also, an outgrowth of holding such activity to be actionable under Title VII would be a potential Federal lawsuit every time any employee made amorous or sexually oriented advances toward another. The only sure way an employer could avoid such charges would be to have employees who were asexual.

The basis for the Ninth Circuit's vacating the trial court's decision is not published. On remand, the trial court refused to dismiss the supervisor as a defendant.

(2) **Williams v. Saxbe,** 413 F.Supp. 654 (D.D.C. 1976): Judge Richey agreed with a Civil Service hearing examiner's conclusion that the termination of an employee for refusing her supervisor's sexual advances constituted sex discrimination. The court concluded that

> the conduct of the plaintiff's supervisor created an artificial barrier to employment which was placed before one gender and not the other, despite the fact that both genders were similarly situated.

Rejecting policy arguments relative to "a fear that the courts will become embroiled in sorting out the social life of . . . employees," the court overruled the employer's motion to dismiss: "It is sufficient for purposes of the motion . . . that the plaintiff has alleged . . . a policy or practice of imposing a condition of sexual submission on the female employees" rather than merely a "nonemployment related personal encounter."

The **Williams** case then reached the D.C. Circuit after the trial court denied both a rehearing and a motion by the planitiff's supervisor that the prior judgment be vacated and that he be allowed to intervene to challenge the district court's finding that the "advances of plaintiff's supervisor . . . were not disputed." The supervisor's motion was filed in order, he alleged, that he might "safeguard his name and integrity."

While the portion of the appeal challenging the propriety of sexual advances claims under Title VII was withdrawn after the appellate decision in **Barnes,** the intervention issue caught the attention of the Court of Appeals:

There remains only the question whether Brinson should have been or now should be, allowed to intervene in appellee's suit against the Department. That is an issue we have no cause to address at this time. We are remanding for a de novo trial at which Brinson expectably will again testify, and that may eliminate any need for his participation additionally as a party. If it does not, the oncoming new trial is an appropriate occasion for reconsideration of a renewed motion to intervene. To eliminate any obstacle to another effort by Brinson in that direction, we vacate the District Court's order disallowing his intervention. In doing so, we of course do not intimate any view whatever as to treatment of the intervention problem should it again confront the court.

(3) **Miller v. Bank of America,** 418 F.Supp. 233 (N.D.Cal. 1976): The employer's Employee Relations Department had been established to investigate employee complaints, including those concerning "sexual impropriety and sexual advances." Plaintiff claimed she was promised a better job by her supervisor if she would be sexually "cooperative" and that, failing to acquiesce to this demand, she was fired. On the basis of the company policy and procedure, which was bypassed by plaintiff, the court found for the defendant, observing:

> It is conceivable, under plaintiff's theory, that flirtations of the smallest order would give rise to liability. The attraction of males to females and females to males is a natural sex phenomenon and it is probable that this attraction plays at least a subtle part in most personnel decisions. Such being the case, it would seem wise for the courts to refrain from delving into these matters short of specific factual allegations describing an employer policy which in its application imposes or permits a consistent, as distinguished from isolated, sex-based discrimination on a definable employee group.

However, in June 1979, the Ninth Circuit sent the case back for trial, saying that the mere existence of a grievance procedure and plaintiff's failure to avail herself of it provided no defense to the bank.[3]

(4) **Tomkins v. Public Serv. Elec. & Gas Co.,** 422 F.Supp. 553 (D.N.J. 1976), **rev'd,** 568 F.2d 1044 (3d Cir. 1977): The trial court held that while sexual harassment and "sexually motivated assault" are not prevented by Title VII, "when a female employee registers a complaint of sexual abuse and the company chooses to fire her rather than investigate," such conduct "may reflect a conscious choice to favor the male employee over the female complainant on the ground that a male's services are more valuable than a female's." Thus, "[w]hen a female employee registers a complaint and the grievance is not only not adequately processed, but the complainant is persecuted for having the temerity to advance it at all," if "such a corporate posture is sex-based," Title VII is violated.

The Third Circuit deemed the trial court's decision to have been based on insufficient facts: "Whether the incident was company policy or a purely personal incident is a factual determination . . ." The appellate panel saw "a discernible pattern" as emerging from the decisions in point. Based on **Barnes v. Costle** and **Garber v. Saxon Business Products, Inc.,** and distinguishing both **Corne** and **Miller,** it was stated that two elements are required to establish a Title VII violation in this area: "first that a term or condition of employment has been imposed and second, that it has been imposed by the employer, either directly or vicariously, in a sexually discriminatory manner."[5]

(5) **Garber v. Saxon Indus., Inc.,** 14 EPD ¶ 7586 (E.D.Va. 1976), **reversed, Garber v. Saxon Business Products, Inc.,** 552 F.2d 1032 (4th Cir. 1977): The trial court dismissed the complaint solely on the basis of the **Corne** decision. In reversing, the Fourth Circuit rendered a one paragraph **per curiam** opinion, without citations, stating:

> The complaint and its exhibits, liberally construed, allege an employer policy or acquiescence in a practice of compelling female employees to submit to the sexual advances of their male supervisors in violation of Title VII.

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[3] 600 F.2d 211.

[4] "[I]f an inebriated approach by a supervisor to a subordinate at the office Christmas party could form the basis of a Federal lawsuit . . . if a promotion or a raise is later denied to the subordinate, we would need 4,000 Federal trial judges instead of some 400."

[5] The case was subsequently settled for $20,000 plus a consent decree in which the defendant acknowledged that "sexual advances or sexual harassment of employees by their superiors or any other actions by company personnel which impose a requirement of sexual cooperation as a term and condition of employment" were violative of Title VII. PSE&G agreed to establish a review panel to hear discrimination complaints of other employees. ASPA **Fair Employment Digest** (September 1978), 4.

(6) **Munford v. James T. Barnes & Co.,** 441 F.Supp. 459 (E.D.Mich. 1977): Summary judgment was denied; the court found that plaintiff had stated a claim and that the employer could be held liable if it "ratified" the supervisor's conduct by supporting the employee's dismissal without investigating plaintiff's complaint.

> [A]n employee whose complaint alleges that she was discharged for refusing the sexual advances of her supervisor has stated a good cause of action under the Act . . . . The failure to investigate gives tacit support to the discrimination because the absence of sanctions encourages abusive behavior.

However, the court refused to agree with the **Barnes** panel majority's proposition 'that an employer is automatically and vicariously liable for the acts of its agents or supervisors." Instead, the court, in effect, adopted Judge MacKinnon's standard: "[A]n employer has an affirmative duty to investigate complaints of sexual harassment and deal appropriately with the offending personnel."

(7) **Heelan v. Johns-Manville Corp.,** 451 F.Supp. 1382 (D.Colo. 1978): While plaintiff had an affair with a fellow employee, she refused to do so with her supervisor. Both before and after plaintiff was terminated, she had complained of her supervisor's advances to a female corporate officer (who also happened to be the mother of the employee with whom plaintiff had been sexually involved) and to others. When the supervisor denied making any such overtures to plaintiff, "the matter was dropped."

After a review of decisional law and secondary authorities, the court found for the plaintiff and, in so doing, established a set of criteria to be employed in adjudicating "sexual advances" claims:

> (a) ". . . the plaintiff must allege and establish that submission to the sexual suggestion constituted a term or condition of employment. A cause of action does not arise from an isolated incident or a mere flirtation . . . [or from] sexual relationships which may arise during the course of employment, but which do not have a substantial effect on that employment."
>
> (b) "It is not necessary for a plaintiff to prove a policy or practice of the employer endorsing sexual harassment."
>
> (c) "Thus, to present a **prima facie** case of sex discrimination by way of sexual harassment, a plaintiff must plead and prove that (1) submission to sexual advances of a supervisor was a term or condition of employment, (2) this fact substantially affected plaintiff's employment, and (3) employees of the opposite sex were not affected in the same way by these actions."
>
> (d) This **prima facie** case can be rebutted if the employer can prove "a policy or history of discouraging sexual harassment of employees by supervisors and the employee has failed to present the matter to a publicized grievance board." In other words, "[i]f the employer is aware of the situation and rectifies it, the employer may not be held liable for the acts of the agent."

(8) **Rinkel v. Associated Pipeline Contractors, Inc.,** 16 EPD ¶ 8331 (D.Alas. 1978): A Title VII claim is stated by alleging that plaintiff was refused a job transfer due to her rebuffing a senior management official's sexual proposition (relying on **Barnes** and **Tomkins**).

(9) **Price v. John F. Lawhon Furniture Co.,** 16 EPD ¶ 8342 (N.D.Ala. 1978): Since the company had "a firm rule against sexual fraternization among its employees" and, although plaintiff had not complained to company officials, after she threatened to do so her supervisor's behavior "subsided to the level of invitations to drinks," the court found for the defendant.

(10) **EEOC v. D. H. Holmes Co.,** 556 F.2d 787 (5th Cir. 1977), **cert. denied,** ___ U.S. ___ (1978), was brought as a class action seeking general relief for female employees of a Louisiana department store chain. Former employees who alleged they had been discharged for reporting the improper sexual advances of a security supervisor to upper management filed two of the five underlying charges of discrimination. However, no reported decision deals with this aspect of the case other than to recite the facts.

(11) **Pantchenko v. C. B. Dolge Co.,** 581 F.2d 1052 (2d Circ. 1978): Allegations of improper sexual advances and other discriminatory conduct were dismissed by the trial court. The Second Circuit, with no discussion of the facts, affirmed as to this aspect of the decision below.

(12) **Stringer v. Department of Community Affairs,** 446 F.Supp. 704 (M.D.Pa. 1978): Relying on **Tomkins,** the court found that plaintiff's Title VII complaint stated a cause of action but dismissed pendent claims for "infliction of mental distress" as barred by the state statute of limitations.

(13) **Smith v. Rust Engineering Co.**, 18 EPD ¶ 8698 (N.D.Ala. 1978): Partial summary judgment for the defendant was granted concerning plaintiff's sexual advances claims:

> In this case, the court has assumed for purposes of the motion that the statements and actions relied on by plaintiff were "sexual advances" [even though plaintiff conceded that her male fellow employee never asked her to have any type of relationship with him]. However, it is undisputed that there was no alleged relationship between the claimed sexual advances and remarks and any term or condition of employment . . . . This male employee did not promise her anything with respect to her employment and the plaintiff does not claim that acquiescence in the sexual advances . . . was impliedly or expressly required as a condition of employment.

(14) **Cordes v. County of Yavapai**, 17 FEP Cas. 1224 (D.Ariz. 1978): Plaintiff, a legal secretary, claimed she had refused a request to engage in a sexual affair. The court found no claim that the alleged sexual advances had any impact upon her employment and dismissed the complaint.

(15) **Neeley v. American Fidelity Assur. Co.**, 17 EPD ¶ 8395 (W.D.Okla. 1978): Plaintiff's supervisor allegedly made sexual remarks to her and placed his hands on her shoulders. The court found these actions to be "personal acts," and dismissed since "neither the continued employment nor employment related benefits were conditioned upon her acquiescence to the misbehavior."

(16) **Bundy v. Jackson**, 19 EPD ¶ 9154 (D.D.C. 1979): Plaintiff proved she was subjected to sexual advances by her supervisors, but showed no effect on her job. The court, after detailing specific incidents involving several named supervisors, concluded that plaintiff had not been discriminated against.

(17) **Fisher v. Flynn**, 598 F.2d 663 932 (1st Cir. 1979): A three-judge Federal appeals panel affirmed a trial judge's finding that the plaintiff had not proved any connection between alleged sexual advances and her termination. While plaintiff, an Assistant Professor of Psychology at Bridgewater (Mass.) State College, claimed she was subjected to "romantic overtures," the male department Chairman involved did not have the authority to terminate her employment or effectively to recommend termination.

As can be seen from the authorities reviewed above, only 6 of the 17 decisions — **Miller, Heelan, Price, Pantchenko, Bundy,** and **Fisher** — were rendered after an evidentiary hearing or trial on the merits. Of those, **Pantchenko** offers no real discussion. Thus, the majority of the reported cases consist of little more than allowing the plaintiff, if allegations are made with some care, to remain in court.

From a conceptual standpoint, sexual harassment may be dealt with more easily under Section 704 of the Act, which protects against reprisals for "opposition to any . . . unlawful employment practice" or for "making a charge" or "participating in any manner in an investigation." By means of what is actually a subterfuge, a carefully-coached charging party may complain to EEOC and her employer concerning alleged sexual advances and thereafter assert that any adverse changes in her employment conditions were attributable to retaliatory motives. Very few reported decisions even touch upon the filing of ill-founded charges, and most that do have concluded that the charged employer or agent has a remedy only in tort.

As shown here, interest in the ability of the sexually aggressive supervisor to protect his reputation led in part to the outcome on appeal in **Williams v. Bell.** However, another district judge in the same Circuit refused to allow a complaint by a Federal employee who had been "summarily named as a discriminator" by an administrative review panel. On the other hand, the Supreme Court has held that a private complaint to governmental authorities is protected by the First Amendment's guarantee of free speech, thereby rendering any retaliation by a governmental employer due to such a complaint to be a violation of the complainant's constitutional rights.

Any attempt to balance these competing interests places a Federal court in a touchy situation. Given the privilege afforded allegations in pleadings, which is absolute in most states, it is quite possible for a supervisor who is named as a sexual aggressor in a factually-explicit Title VII complaint to be defamed and irreparably injured without any meaningful recourse, in tort or otherwise. Yet, a lesser degree of protection to pleading would itself raise grave First Amendment considerations. Other factors in the equation are society's interest in preventing discriminatory conduct and the practical burdens imposed upon Federal courts in administering a "general Federal tort law."

A step in the right direction would be a well-reasoned formulation of the sort of sexual harassment that should be redressable under Title VII, either as discriminatory conduct or pursuant to Section 704's proscription against reprisals. In so doing, it is apparent that not all sexually-oriented activity in the workplace should be actionable under Title VII. Ambitious definitions in recently-published articles on the subject are exemplified by one typical set of examples of sexual harassment: (1) verbal abuse; (2) sexist remarks regarding a woman's clothing or body; (3) patting, pinching, or brushing up against a woman's body; (4) leering or ogling; (5) demand for sexual favors in return for hiring, promotion, or tenure; (6) physical assault; (7) rape.[7] Small wonder that, based on such a sweeping definition, the same article postulates that from 80 to 90 percent of American female workers face sexual abuse and coercion on the job. Yet, of the seven examples given, only the fifth is clearly within the presently-accepted framework of Title VII's protection, while (1) and (2) might, through analogies discussed below, be the subject of redress in an otherwise meritorious action. Examples (3), (6), and (7) are tortious and possibly criminal; the fourth, unaccompanied by any of the other named activities, seems far beyond the pale of legitimate statutory protection.

Even those courts that have been receptive to the **concept** of a Title VII complaint concerning sexual advances have been inclined by the facts to conclude that seldom is sexual harassment an employer's policy or practice, while sexual solicitation, unaccompanied by adverse employment consequences, has simply been treated as harmless so far as Title VII goes. In **Miller,** for example, the trial court found that Bank of America had adopted a formal policy for dealing with complaints of sexual harassment, including a grievance procedure and a management-level investigator for employee complaints. Since the plaintiff had failed to utilize these procedures, the court inferred that plaintiff's complaint was not meritorious: The court is not to be understood as holding that exhaustion of company remedies is a prerequisite to suit under Title VII. Rather, failure of exhaustion goes more to whether the employer is liable at all.

However, a blurring of the focus of the underlying legislation has been fostered by a series of decisions by the Equal Employment Opportunity Commission which, though not binding as precedent, are nonetheless given some degree of deference by courts faced with Title VII litigation. Examples of decisions the author feels to be "borderline" include those finding Title VII violations in derogatory racial or ethnic statements. The Federal judiciary has not hastened to endorse this rationale and has proceeded with much more caution. Perhaps the most dispassionate analysis of the subject is found in Judge Rubin's decision in **Howard v. National Cash Register Co.,** 388 F.Supp. 603 (S.D.Ohio 1977). After a careful review of the history of adverse social, ethnic, religious, and racial comments, from "Amos and Andy" to "Archie Bunker," the court quoted without elaboration from a 1936 law review article in which a Federal judge discussed what was then a new concept in litigation, "mental distress":

> Against a large part of the frictions and irritations and clashing of temperaments incident to participating in a community life, a certain toughening of the mental hide is a better protection than the law ever could be.

The author agrees with this thesis. While there is no room in the workplace for sexual harassment of female workers, there is precious little room in the courts for every woman who is offended by remarks or conduct of male fellow employees or supervisors. Actual assault may be prosecuted or dealt with as a tort.[8] Actual adverse employment decisions keyed to sexual noncompliance may be litigated under Title VII. For the wide range of conduct in between, though, a reasoned approach to the problem would seem to be either to ignore the aggressor or to seek redress from his superiors — and to maintain the dignity of the courts in the process.

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[7] Patricia A. Somers and Judith Clementson-Mohr, "Sexual Extortion in the Workplace," **The Personnel Administrator** 24 (1979): 23.

[8] Another possible approach is that employed by Judge Stern in **Kyriazi v. Western Electric,** FEP Cas. (D.N.J. 1979): after finding that plaintiff's supervisors had harassed her by distributing obscene cartoons about her and by making her the object of lewd jokes, the court fined each supervisor $1,500 for conspiring to violate her civil rights.

Career Development in Union Carbide's Electronics Division

By Sara M. Jones

EDITOR'S NOTE: The role of colleges and universities in educating individuals for positions of leadership is relatively well known. Sometimes overlooked, however, are the internal programs of businesses and other organizations to continue the educational process for their employees. This article is the second in a series designed to give a familiarity with the recruitment and training programs in the various types of industries, i.e., banking, textiles, the electrical industry, etc. This month's offering, describing the career development program at Union Carbide Corporation, is intended to serve as a typical picture of industrial training programs in South Carolina. We are specifically interested in such topics as productivity, absentee control, discipline, cost control, quality control, scrap reduction, etc. If you have programs on these topics you would like others to know about, please contact us so we can arrange to have a representative talk with you about possible articles on them.

At its headquarters in Greenville, South Carolina, the Components Department of Union Carbide's Electronics Division began an innovative orientation to industry for new professional employees five years ago. This Career Development Program is not a training program. The participants have already spent a minimum of 16 years learning skills, from reading to writing to engineering. Rather, it is a program designed to show young people how they can **apply** their hard won knowledge and skills in industry —. most particularly, the electronics industry.

The Electronics Division's Career Development Program (CDP) normally takes 2 years to complete and consists of 4 six-month assignments selected from a group of 19 job functions. The word "normally" is used advisedly, because the program is deliberately kept flexible. Participants with advanced degrees or previous work experience may have a shorter tour of duty with fewer assignments, or with the same number of assignments but shorter work periods.

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This welcome to the world of work was designed to meet the following very definitely defined needs:

1. that of bringing on board talented newcomers, primarily those with technical degrees
2. that of producing management people fast because of a rapidly growing business that seems to require an almost limitless supply of new hires
3. that of exposing future managers to varied work groups and experiences, so they will have a greater appreciation of the whole operation and of how each department contributes
4. that of helping the newly employed college graduate to find his or her own niche or niches in the business world.

In addition to these original goals, other benefits have also been realized by CDP. These are discussed in a later section of this article.

Although CDP actually began operation only five years ago, the idea, the planning, and the consideration of alternative ways of meeting company needs began several years before that. Employee Relations personnel, Engineering personnel, and Production Managers took part in numerous discussions on the best way to groom people for future management positions. During this time, a concentrated effort was begun to move employees into different work assignments. These changes were made mostly for human resource development reasons and involved first-, second-, and sometimes third-level managers, but, certainly, efficient operations had to be maintained. It became increasingly apparent that while transfers into and out of varied departments were effective, they did need to be organized better. Finally, a CDP format was devised that was so successful it has required only slight modification since its inception. This program is, as intended, an addition to, not a replacement for, other development paths.

When college recruiting for CDP began, it was decided three special people should be sought. These "three musketeers," as they came to be called, turned out to be at Georgia Tech and North Carolina State Universities. It had been agreed that a number of engineering disciplines would be acceptable, but, coincidentally, these first three hired were all Industrial Engineers. While most of the Electronics Managers supported the career development concept, they were a little hesitant to place a professional person in their departments for only six months. Everybody had agreed that somebody would give it a try, though, so three courageous souls finally volunteered.

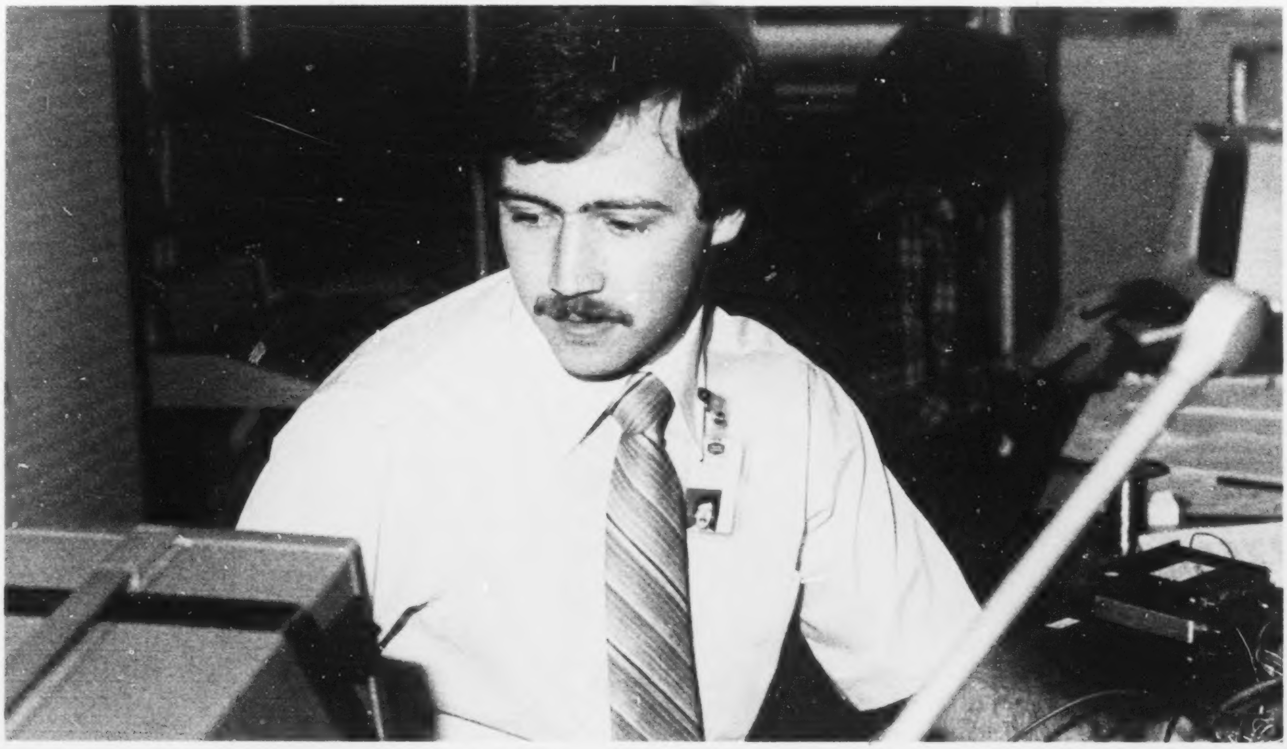
The value of the contributions made by the three musketeers did much to bolster the entire program. These young people were learning by doing, and what they were doing turned out to be extremely worthwhile. The mood of the managers toward CDP swung like a pendulum: soon there were more requests than recruits. This is still true today.

So far, 29 employees have begun their Union Carbide careers with CDP, and 10 have completed the full 2 years. Some have found a particular area so interesting they have requested a permanent assignment. In keeping with the flexibility standard set, these requests have been honored whenever possible. Their managers have always been glad to keep them and at times, actually have been suspected of having done a sales job to persuade them.

On the debit side of the ledger, the company has had to reassign only 1 employee for failure to perform, while 2 have chosen to resign during the 2 years to enter graduate school. Further, 3 of the 10 graduates have left to join other firms, who are profiting from Union Carbide's investment. This was to be expected, but Union Carbide still does not lose money on these employees, because they earn their keep as they go. As this article is being prepared, 1 of the 3 who resigned has asked to come back into the fold, and the company is trying to find a good job fit for him.

Although technical degrees are preferred, a smattering of Business Administration, Economics, and Liberal Arts disciplines are accepted, as these backgrounds are helpful for future financial, administrative, and employee relations managers. The sales and marketing departments have a

Deborah McAlister is a 1978 graduate of Clemson University with a degree in Economics



Ben Box, a 1979 graduate of Georgia Tech, holds 2 degrees: Physics and Electrical Engineering

separate development plan for recent college graduates and it is possible to switch from one program to the other. It is important to note that sometimes the Electronics Division finds its Career Development participants internally, and they come in as transfers rather than new hires. While considerable pride is taken by management in the CDP method of growing future managers, it is important to note at this point that this is not the only path to success with UCC Electronics. With UCC's rapid expansion, opportunities for advancement abound, and there are many ways to get the needed experience and exposure to climb the corporate ladder.

Among those degrees held by CDP professionals are Industrial Engineering, Business Administration, Economics, Administrative Management, Electrical/Electronics Engineering, Mechanical Engineering, Ceramics Engineering, Chemistry, and a B.S. in Nursing. The last one is due to a career change by one of UCC's plant nurses. Most participants do come directly from college campuses, although some have working experience and are shifting career paths.

The Industrial and Electrical/Electronics Engineering degrees outnumber all the others, since five CDP people hold IE degrees and five EE degrees. This is not surprising in view of the varied assignments available and the fact that UCC is part of the electronics industry.

The Career Development Program began during a time of heavy emphasis on equal employment opportunity and affirmative action. There was no question about this program's being compatible with EEO objectives, but it was not planned particularly as a prototype in this area for all job functions. It has become a model of affirmative action simply because there are far more inexperienced professional females and minorities than there are experienced ones. The 1979 group resembles a mini-United Nations, with five white males, four white females, three black females, two Hispanic males, one Mideastern male, and one Oriental female. Of the 16, 10 have technical degrees, with 1 of the 6 holding nontechnical degrees being a white male. The progress made by females and minorities in entering technical fields is readily apparent from these statistics.

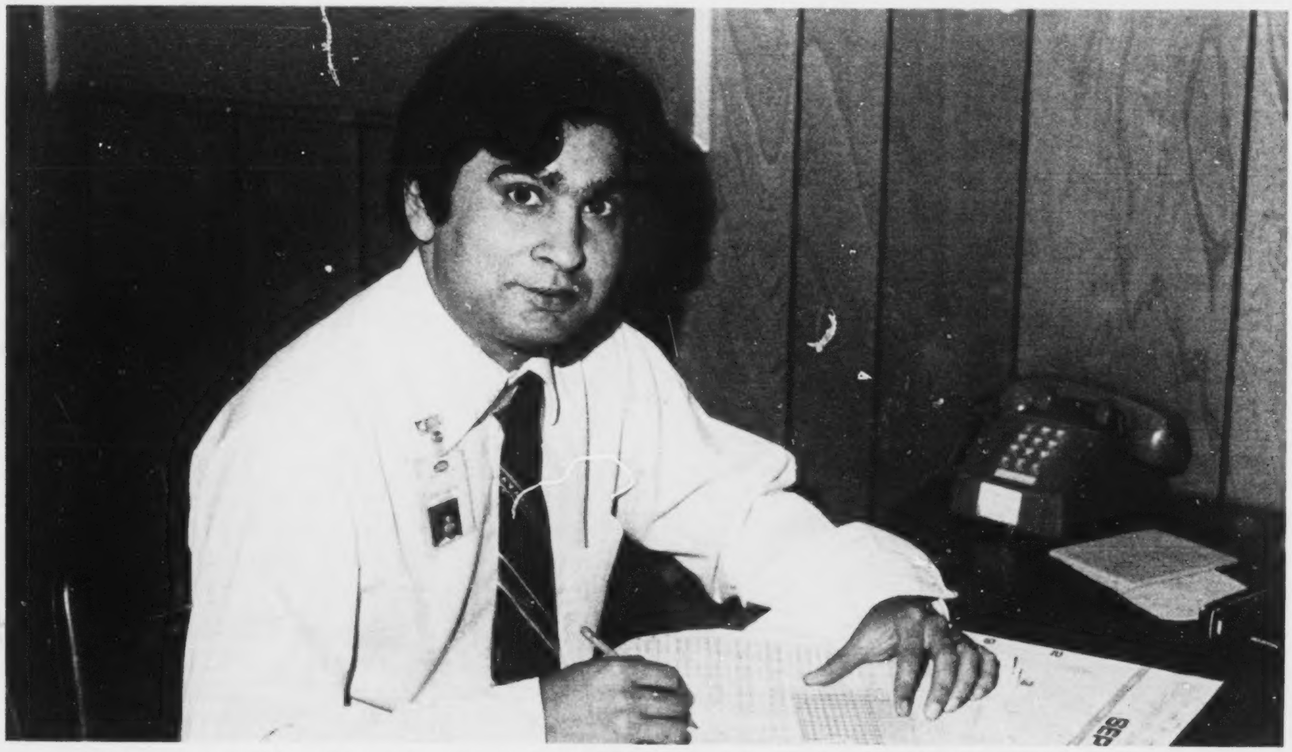
People often ask, "If you aren't looking for just specific degrees and you don't consider sex, race, creed, or national origin, what are your criteria? How do you make your selections?" First of all, UCC Electronics is developing human resources for the future, and its future is heavily dependent on technological progress. Therefore, it tries to ensure that two-thirds of the CDP participants have technical educational backgrounds. A little quick arithmetic will show that it's a little off the mark, as this article is being written, but it has recruited two engineers from the August crop of college graduates. When they report for work, CDP will be right on target.

To date, CDP is meeting the four needs mentioned at the beginning of this article: that of hiring engineers, that of growing managers fast, that of broadening the experience base of future managers, and that of giving newly employed college graduates a chance to find a good job fit. All of these things are happening, and many people have expressed their appreciation, particularly for the fourth item on the list. As one young college graduate put it, "How can I tell what I want to do when I don't know what anything is?" A more experienced manager put it this way, "When I finished school and was asked what job I wanted to have in 10 years, I would have named the job I now have had I known there was such a job. But I didn't, so I just had to luck out."

There have also been some interesting bonuses for both participants and the company. From the employee's viewpoint, the most important benefit has been getting to know so many people who are involved in all phases of a rather large, complex operation. You don't learn all the answers (no one can), but you surely do learn where to go for help when you have questions and problems. From working side by side with all these different people, you build a rapport, an appreciation for their contributions, and an understanding of the problems they face.

An unexpected bonus for the company has been the solution of a problem that is relatively new to industry. As more and more females join the management and professional ranks, UCC Electronics finds itself having to provide temporary replacements for supervisors or engineers on maternity leave. The six-month assignment of a person scheduled to rotate through four areas proved to be the ideal answer. A few weeks' orientation for the fill-in, the leave itself, and a week to bring the returnee up to date add up to just about six months. A CDP assignment is also an ideal way to accomplish a special project or to cover a temporary job.

The Career Development Program is a valuable recruiting tool, as it is attractive to college seniors. It also gives UCC Electronics the flexibility to hire 1 or 2 or 10, depending on the availability of



Shahid Sadig is a 1979 graduate of N.C. State University with 2 degrees: Chemical Engineering and Industrial Engineering.

Susan Williams, a 1979 graduate of Wake Forest University, earned her degree in Chemistry

candidates. It provides the company an alternative to the natural inclination of managers to insist upon some working experience for all new hires. While participants are getting to know a number of people, the company is getting to know the participants. Their performance is evaluated by a minimum of four supervisors and selected other people with whom they interface.

As with any new endeavor, problems have been encountered. Of these, two are basically on opposite sides of the same coin: boredom with a job that's too easy, and deep involvement in a long-term project.

In the first case, the person becomes restless, feels his or her abilities are wasted, and often does not perform well. Usually, this problem can be solved by communication between the manager and the participant. Sometimes the participant has to grit his or her teeth and hang in with the job, because it's the best way to obtain valuable knowledge. Most often, a little time takes care of the situation as more challenging work is assigned to the participant once he or she gains a basic idea of how the particular department functions.

The involvement in critical projects that take longer than six months has been a tougher problem for UCC Electronics. If a Career Development person becomes an integral part of a very important effort, both he and his manager will resist his moving when reassignment is due. This has caused some people to request a permanent job in an area, and the company has honored these requests. Actually, this kind of transfer works well for the company, but it does create holes in the Career Development ranks. Occasionally, the time is extended, and sometimes the move is forced by escalating the problem to higher level management. The latter course of action is usually taken when the involved participant really wants to move.

Each time a participant rotates from one assignment to another, essentially he or she begins a new job. Everyone knows that the first few days on a new job can be confusing, hectic, and discouraging. Weathering this experience four times in two years is not easy, but it does help one grow and mature.

The fourth "bad news" item is what UCC Electronics calls "the two-year syndrome," i.e., a tendency to feel vaguely restless and discontented after about 2 years out of the program and an urge to move again. CDP tries to prepare people ahead of time by telling them this could happen and by encouraging them to talk about the problem if it does occur. Often, opportunities for promotion or transfer come along about that time, so the situation doesn't become critical.

Plans for the future include an expanded Career Development Program with more departments and more participants involved. Small programs are being considered for other plants in Matamoros, Mexico; Columbus, Georgia; and Greenwood, South Carolina.

With an increase in the number of participants, more care has to be given to ensure that each one receives individual attention. There is no spoon feeding or hand holding, because courage, initiative, and independence are required characteristics. However, the Manager of Professional Development does monitor and coordinate the progress of each person. All participants are encouraged to bring to her any problems, concerns, and ideas in assignments they need and want.

At the regular monthly Career Development meeting, CD Professionals compare notes on what's happening in their careers, give one another guidance, and build friendships. They also often socialize with each other after hours, so there is a bond of comradeship in the group.

In summary, Union Carbide Electronics is pleased with its Career Development Program. This division looks forward to even greater accomplishments in the future in developing human resources.

The Management Bookshelf

By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

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THE MANAGER'S STYLE BOOK: HOW COMMUNICATIONS SKILLS CAN IMPROVE YOUR PERFORMANCE

by Morris Bogard
Prentice-Hall, Inc.
Englewood Cliffs, NJ 07632
1979, 174 pp., $10.95
pap. $4.95

This volume concentrates on one of the critical skills required in management: the ability to communicate. The author gives practical advice on developing and improving communications skills in such areas as listening, speaking, writing, and interviewing.

POWER IN MANAGEMENT: HOW TO UNDERSTAND, ACQUIRE AND USE IT

by John P. Kotter
AMACOM
1979, 110 pp., $9.95

Relying on examples drawn from the working world, the author has developed a theory of power. His analysis and recommendations offer new insights for management on the handling of power.

THE ART OF BEING A BOSS

by Robert J. Schoenberg
J. B. Lippincott Co.
E. Washington Sq.
Philadelphia, PA 19105
1978, 289 pp., $10.00

In this volume the author attempts to identify those qualities a successful leader should possess. To do this he interviewed 100 practicing executives, and found such traits as self-confidence and articulateness to be among those frequently mentioned.

PRACTICAL OPERATING BUDGETING

by Lawrence M. Matthews
McGraw-Hill
1221 Ave. of the Americas
New York, NY 10020
1977, 238 pp., $19.50

This book should be useful to anyone involved in operating a budget. Here the author examines common budgeting problems and offers constructive advice on how to deal with them.

A FLEXIBLE APPROACH TO WORKING HOURS

by J. Carroll Swart
AMACOM
135 W. 50th St.
New York, NY 10020
1978, 278 pp., $19.95

This is a study of the development and contemporary usage of flexitime programs. Also included are sections on job enrichment programs and quality of working life studies. The author believes this is the way to increased worker morale and productivity.

HOW TO IMPROVE HUMAN PERFORMANCE: BEHAVIORISM IN BUSINESS AND INDUSTRY

by Thomas K. Connellan
Harper & Row Publishers, Inc.
10 E. 53rd St.
New York, NY 10022
1978, 185 pp., $10.95

This book will benefit those managers responsible for motivating employees to do their jobs. It presents proven behavioral modification techniques that can be applied in managing job behavior under a wide variety of real world conditions.

* * *

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business and economic review

NU 1

STATISTICAL INDICATORS OF SOUTH CAROLINA BUSINESS

ITEMS	September 1979	September 1978	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 2,993	$ 2,783	+ 7.5
Demand	1,599	1,545	+ 3.5
Time	1,389	1,234	+12.6
Loans, Member Banks ($ millions)	2,090	1,974	+ 5.9
Savings in Savings and Loan Associations ($ millions)	5,019	4,627	+ 8.5
Sales and Use Tax Collections ($ thousands)	43,607	39,985	+ 9.1
Labor Market:			
Civilian Labor Force (thousands)	1,334.5	1,309.5	+ 1.9
Employment	1,272.9	1,240.6	+ 2.6
Rate of Unemployment (percentage)	4.6	5.3	-13.2
Nonfarm Wage and Salary Employment (in thousands)	1,160.6	1,137.9	+ 2.0
Manufacturing	389.1	389.6	a
Contract Construction	64.5	68.2	- 5.4
Transportation and Public Utilities	51.5	49.6	+ 3.8
Wholesale and Retail Trade	222.4	213.8	+ 4.0
Finance, Insurance, and Real Estate	46.3	44.4	+ 4.3
Services, Mining, and Miscellaneous	157.2	147.8	+ 6.4
Government	227.6	222.6	+ 2.2
Average Hourly Earnings, All Manufacturing (in dollars)	$ 5.24	$ 4.78	+ 9.6
Initial Unemployment Claims Filed in South Carolina	20,284	12,787	+58.6
Placements by South Carolina Employment Offices (nonagricultural)	7,067	7,339	- 3.7
Indexes of Prices Received by Farmers (1966-68=100)			
All Farm Products	211	204	+ 3.4
All Crops	228	221	+ 3.2
Livestock and Products	210	199	+ 5.5
S.C. Parity Ratio	83	92	- 9.8
New Motor Vehicle Registrations			
Cars	9,416	9,173	+ 2.6
Trucks	3,113	2,841	+ 9.6

	September 1979	September 1978	First 9 Months		
			1979	1978	Percentage Change
Valuation of Building Permits Issued ($ thousands)					
Total for all S.C. Counties	$203,679	$102,358	$1,372,465	$1,061,907	+29.2
Available County Data					
Aiken	2,101	1,959	44,507	37,071	+20.1
Berkeley	3,399	4,690	38,321	52,506	-27.0
Charleston	10,014	6,993	156,227	96,692	+61.6
Dorchester	2,159	578	38,582	26,199	+47.3
Lexington	4,142	6,114	68,566	53,290	+28.7
Richland	16,875	7,945	103,822	63,656	+63.1
Greenville	11,893	7,297	145,818	101,001	+44.4
Pickens	2,543	4,471	28,602	25,836	+10.7
Spartanburg	15,429	7,590	112,968	68,767	+64.3

[a] Less than one-half of 1 percent

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business and economic review

DIVISION OF RESEARCH ■ COLLEGE OF BUSINESS ADMINISTRATION ■ THE UNIVERSITY OF SOUTH CAROLINA

S. C. Development and Tourism Issue

Volume XXVI, Number 5
April 1980

"Industrial Development in South Carolina"
by Robert Edwards Leak and Edward B. Burgess

"The Problems of Small Businesses in the South Carolina Travel and Tourism Industry"
by John A. Pearce II, Bruce R. Schmidt, and Fred R. David

"Problems with Private, Commercial Recreation Development in a Major Southeastern Reservoir Complex: South Carolina's Santee Cooper Country"
by Thomas C. Vose

"Vacation Travel Behavior and Perceived Benefits of Home State Residents"
by Arch G. Woodside, Ellen M. Moore, and Michael J. Etzel

"A Survey of Hospitality Industry Education in South Carolina"
by Melvin N. Barrington, Jr.

"Geographic Analysis: Implications for Tourism"
by Lisle S. Mitchell

"The Management Bookshelf"
by Dwight Gardner

Statistical Indicators of South Carolina Business

Summary of Contents

3 **Industrial Development in South Carolina.** South Carolina has made giant strides in industrial development over the past three decades. However, the competition for new industry is keen, and the natural attractions of the state must be supplemented by imagination, stamina, and great persuasiveness if companies are to be induced to open plants in South Carolina. Robert Edwards Leak and Edward B. Burgess of the S. C. State Development Board tell what their agency does to bring in new business and industry and what the trends will be in the future.

18 **The Problems of Small Businesses in the South Carolina Travel and Tourism Industry.** Dr. John A. Pearce II, Director of the Tourism Business Division of the Small Business Development Center of South Carolina, and Bruce R. Schmidt and Fred R. David of the USC College of Business Administration discuss the importance of the tourism industry to South Carolina, point to some of the problems it faces, and offer possible solutions.

24 **Problems with Private, Commercial Recreation Development in a Major Southeastern Reservoir Complex: South Carolina's Santee Cooper Country.** Thomas C. Vose of USC's Department of Geography describes the dramatic rise in the use of state parks, especially those encompassing ponds, lakes, and rivers; and the effect of taxes and inflation on parks, recreation, and tourism programs.

28 **Vacation Travel Behavior and Perceived Benefits of Home State Residents.** How many S. C. residents travel within the state as compared with those who journey out of state for business or pleasure? How can a state persuade its own residents to visit in-state destinations? These and other, related questions are addressed by Dr. Arch G. Woodside and Ellen M. Moore of USC's College of Business Administration and Dr. Michael J. Etzel of Utah State University, and sound answers based on carefully documented research are provided.

35 **A Survey of Hospitality Industry Education in South Carolina.** In the late 1960's, S. C. post-secondary education recognized the need to develop programs for the state's second largest industry — hospitality and tourism. Melvin N. Barrington, Jr., Chairman of USC's Department of Hotel, Restaurant, and Tourism Administration, describes the educational courses S. C. colleges and technical schools now offer in hotel/motel management.

38 **Geographic Analysis: Implications for Tourism.** Dr. Lisle S. Mitchell, Chairman of the Association of American Geographers's Committee on Recreation, Tourism, and Sport, considers why tourism establishments are located or distributed in particular places or patterns. He also investigates the elements of linkage, and determines some implications of geographic analysis for tourism managers, decision makers, and planners.

43 **The Management Bookshelf,** a regular feature in which Dwight Gardner, USC BA's Business Librarian, reviews books of interest to business practitioners.

44 **Statistical Indicators of South Carolina Business.** A regular feature, listing the latest available data.

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Vol. XXVI, No. 5 April 1980

Division of Research
College of Business Administration
The University of South Carolina
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This month's cover: S.C.'s Hardeeville Welcome Center.

Industrial Development in South Carolina

By Robert Edwards Leak and Edward B. Burgess

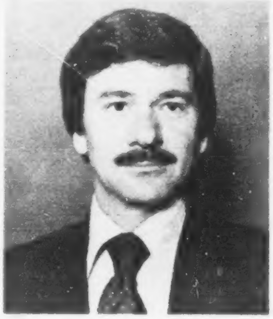
A BRIEF HISTORY

Industrial development in South Carolina was first recognized in the early 1800's. Prior to 1815, manufacturing was limited to plantation factories, and consisted primarily of handcrafts. During the nineteenth century, industrialization had its ups and downs. Cotton mills, iron foundries, rice milling, sawmilling, and turpentine production were major industries of the era, but industrialization was hampered by the lack of transportation, capital, and technology. It was not until the steam engine and railroad found their way into the state that manufacturing started to grow. Charleston, because of its port facilities; Aiken County, because of its rail system; and the foothills of the Piedmont, with its water power; were the first regions to develop.

Traditionally, South Carolina is thought of as a major agricultural and textile state. Its association with both can be attributed primarily to the state's production of "King Cotton." Construction of cotton mills was significant during the first half of the 1800's, but growth of the industry was virtually nonexistent prior to, and immediately after, the War between the States. Capital and labor skills were, according to many, not adequate to compete with the richer, more industrialized New England area. The first mills in South Carolina were established on the premise of cheap cotton and labor; but as the capital-rich New England area continued to develop, competition for cotton made it difficult for many of the South Carolina plants to survive. Returns on manufacturing were not as attractive as agriculture for capital sources in the state, and the state's leading industry, cotton textiles, saw some decline. In 1880, tar, turpentine, and fertilizers were more important to manufacturing than textiles. However, by the turn of the century, cotton goods manufacturing had grown to be the state's leading industry. Total manufacturing employment by 1900 was over 40,000, and textiles represented nearly 74 percent of the total.

The first organized, state-supported development effort was the Preparedness for Peace Commission established in 1942 as part of the Appropriations Bill. The primary responsibility of the commission was to investigate, study, and report to the General Assembly a recommended program for development that would aid the state in its transition from a wartime to a peacetime economy. The commission was given $15,000 with which to operate, the authority to retain a secretary, and direction that of its members 3 were to be appointed from the

Robert Edwards Leak is Director of the S. C. State Development Board. Former Director of the Division of Commerce and Industry for the state of North Carolina, he is an ex officio member of the South Carolina State Board of Technical and Comprehensive Education and a member of the Board of the South Carolina Energy Research Institute. As Director of the Development Board, Leak also serves on the Water Resources Commission, the Heritage Advisory Board, the Rail Advisory Commission, the Nuclear Advisory Council, and the Coordinating Council to the Commission on Aging. A graduate of Duke University (B.S.) and the University of Tennessee (M.S. in Geology), he is a designated Certified Industrial Developer and immediate past President of the American Industrial Development Council. Prior to his serving as Director of the North Carolina development program, he was an exploratory geologist with Pan American Petroleum Corporation in Louisiana.



Edward B. Burgess is Associate Director for Planning and Research for the S. C. State Development Board. A graduate of the USC College of Business Administration, he joined the Board in 1967 after working several years in private industry. Past Chairman of the Research Division of the National Association of State Development Agencies, Burgess is presently a member of a number of advisory committees for state growth and planning policy. He has also served as special consultant to banks and other private organizations.

Senate, 3 from the House of Representatives, and additional members, not to exceed 24, from the public at large.

In its final report, the commission recommended the creation of a state agency to plan and promote the orderly development of South Carolina. In 1945, legislation was passed creating the Department of Research, Planning, and Development. This department was to be governed by a five-member board. Among other things, the department was required to coordinate operating agencies in their development of plans; to conduct studies pertaining to its own objectives; to study area problems; to establish local agencies; to advertise the state; and to provide information for, and make contacts with, private businesses for the purpose of acquainting them with opportunities in South Carolina. In addition to these specific duties, responsibilities of several existing agencies were transferred to the department. Major among these were the South Carolina Intra-Coastal Waterway Commission, the State Commission for Port Development, the Board for Promotion of External Trade, the Natural Resources Commission, and the Building Council.

THE STATE DEVELOPMENT BOARD TODAY

In 1954, legislation again changed the name of the agency, this time to the State Development Board, and gave it broad powers to involve itself in several diverse activities. Its overall purpose, however, was to establish a statewide planning and economic development program to stimulate economic activity and to develop the potentialities of the state.

The following were among the program's objectives:

1. to conserve, restore, and develop the natural, physical, human, social, economic, and productive resources of the state.
2. to promote a system of transportation for the state
3. to promote public interest in the development of the state in areas such as industry, agriculture, and commerce
4. to assist in the development of existing state and interstate trade
5. to assist in ensuring stability in employment
6. to advance the general welfare of the people.

To ensure representation of the general public in all areas, a Board of Directors was established to govern the agency. The Board, then as now, is appointed by the Governor with the consent of the Senate. Members serve a 5-year term and represent the state's 16 Judicial Circuits. In addition, three other members, one of whom is Chairman, are appointed at large.

The Board's primary responsibility today, as then, is to set policy and to direct the agency's professional staff. Traditionally, composition of the Board has been representative of all sectors of the economy and includes professionals and key individuals from diverse interests such as banking, agriculture, forestry, medicine, construction, manufacturing, and law.

Leadership of the Board has always been excellent as exemplified by the present Board and its Chairman, Max M. Heller. Heller is a successful businessman and immediate past Mayor of Greenville. He has a European background, having emigrated to the United States in the 1930's. Experience and leadership, such as he represents, are essential to the state's development program. His success as a businessman in the state provides him an authoritative platform from which to speak to others about the potential South Carolina offers.

The Board's staff is responsible for administering the agency's day-to-day program. At the present time, there are 65 professional and nonprofessional staff persons. Their technical backgrounds represent many of those found in industry, such as engineering, marketing, research, geology, business management, advertising, and promotion. The Board's staff is often the first impression an industrial facility planner gets of the state. These facility planners are usually the top-level management of firms and represent substantial investment potential. Based on historical experience, the average new investment in South Carolina is about $6 million. Single plant investments range in size from several hundred thousand to several hundred million dollars. A sales and promotion team that deals in transactions of this magnitude must be professional and proficient in its assigned duties. Overall, therefore, the agency must present the best possible image for the state. The proficiency and credibility of the agency are essential to the success of the development program.

The Board's staff is divided into four major groups: Economic Development, Economic Development Support, Community Preparation, and Administration. The Economic Development Department directly assists industrial prospects in their site selection process. This department has specialists in agriculture, geology, commerce, industry, international trade, and reverse investment. These are the individuals who come face-to-face with the investor. The Economic Development Support Group provides the necessary information investors must have in order to evaluate South Carolina's potential for their project. This group is the largest department of the agency. It has specialists in industrial market research, manpower resources, industrial financing, communications, and public relations. The Community Preparation Department is the newest department. It assists rural areas and small towns by helping them to prepare themselves more effectively and to deal professionally with potential investors. The Administration Department is responsible for staff direction, budgeting, and other housekeeping duties.

OBJECTIVES OF THE BOARD'S PROGRAM

The Board's major objective is to maintain a well-balanced and managed economic development and growth program. Both the needs and the resources of the state vary drastically from one region to another and even from one community to another. The state's development strategy, therefore, must take into account these distinctions. The development program for small towns and rural areas and that for the state's larger communities and metropolitan areas must be different. Thus, the Board's policy and involvement will vary depending upon the area of the state.

The metropolitan areas, for the most part, have their own programs of development. Charleston, for example, emphasizes port-related activities because of its excellent port resources. Greenville/Spartanburg is in the center of the state's manufacturing and distribution activity. Their resources, therefore, include excellent supportive services, a concentration of industrial activity, and an ideal location in the heart of the North Carolina, South Carolina, and Georgia industrial-commercial complex known as the Piedmont Crescent. This crescent, which stretches from Winston-Salem, North Carolina, to Atlanta, Georgia, is the most densely populated area of the Carolinas and Georgia and the fastest growing market of the three-state region. Columbia, on the other hand, has less manufacturing and more administrative office activity than Greenville, Spartanburg, or Charleston. As might be expected, the strategies of these three metro areas differ and are derived from the respective industrial-commercial mixes, resources, and growth policies. The Piedmont, in order to diversify its economy, may logically choose to develop more administrative and research activity while Columbia may choose to concentrate more on manufacturing activity. As a coastal city, Charleston has greater potential than the other two metro areas for the development of tourism and water-related manufacturing and commerce.

Urban areas also play a vital role in the development of surrounding rural areas and small towns because they can provide much of the support that industry requires. They also have cultural activities, commercial air service, and other amenities generally not found in small communities.

Large, by South Carolina standards, nonmetropolitan areas, such as Aiken, Florence, Greenwood, Anderson, and Sumter, have needs similar to those of the metropolitan areas, but their resources are considerably different. Generally, these medium-sized communities are supported by a manufacturing economy. While their resources at the present are not sufficient to be attractive to major administrative and research facilities that require high population density, commercial air service, or a large labor force of scientific or white-collar workers, these communities are extremely attractive areas for small and medium-sized manufacturing plants. The announcement recently that six major firms are to construct new manufacturing plants in Greenwood is an extreme example of just how successful these medium-sized communities can be. The largest of these proposed facilities is expected to employ about 700. All of the plants together are to employ about 1,500 workers in the next year and a half.

Large single plant facilities requiring diverse skills tend to locate in or near metropolitan areas as evidenced by Michelin's recent announcement to build a new tire plant near Columbia and the location of three other plants in the Piedmont area. The Alumax plant, which is being constructed near Moncks Corner, will employ about 850 workers. This latter plant, although in a rural area, still has access to the highly trained labor force of the Charleston area.

There are exceptions to this tendency. Tupperware has a major plant employing about 700 in Hemingway, and a number of large textile plants are in rural communities. These and similar facilities located in rural areas generally have the ability to draw labor support from greater distances because of their labor practices, wages, and overall image.

Although the Board has the legislated responsibility to plan and establish a development program, other groups and individuals are involved. The Governor, the General Assembly, other state and local governmental agencies, and the public in general are major forces that determine how the state will grow and develop. On a statewide basis, the Board has the major responsibility for recommending growth and development programs. Communities and local governments are the chief instruments in determining local objectives.

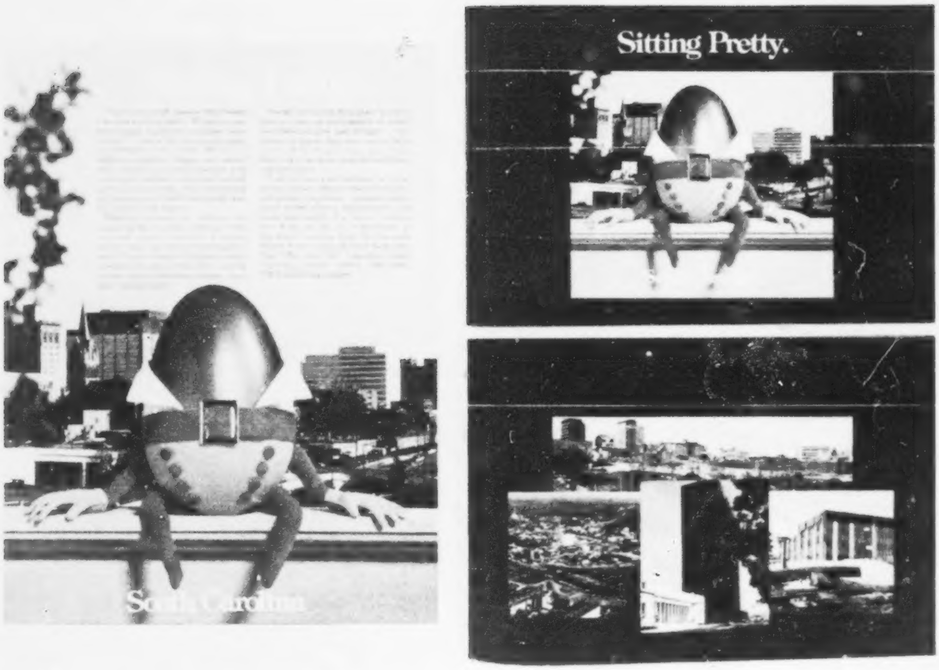
Although the terms "growth" and "development" are often used interchangeably, economically speaking, they have significantly different meanings. Growth issues generally refer to improvements in economic measures, such as per capita income. Development, on the other hand, usually indicates the establishment of a more sophisticated and diversified economy. Both are essential elements in South Carolina's economic development program.

Industrial development has been the primary focus of the State Development Board's efforts over the years. There are some resources devoted to other programs, such as wholesale, warehouse, research, and administrative office, but, for the most part, the Board concentrates on manufacturing development. The mobility of manufacturing industries and their ability to inject new capital and a substantial number of new jobs into the state's economy, independent of the state's natural resources, make it an attractive development tool.

There are several basic economic functions that create wealth. Agriculture, forestry, fishing, mining, and manufacturing are major activities that generate new wealth by adding value to a primary product. These products can be exported to areas outside of their place of origin. Since they are not dependent upon local markets, the employment potential for their production is not limited by local demands. Tourism also creates wealth and adds substantially to the state's economic development, but it is more dependent upon "first generation" industries for original payrolls than are manufacturing, agriculture, forestry, fishing, and mining. Additionally, manufacturing is the only activity in this primary group that is not directly dependent on natural resources as a raw material. There must be minerals to mine, soils for agriculture and forestry, and water for fishing. Manufacturing, on the other hand, is more independent and can be accomplished relatively remote from its supply of raw material. For these reasons, the Board has concentrated its attention on manufacturing industries as the major support for the state's growth and development.

In the decade of the 1960's, the major objective of the Board was to stimulate development activity that would generate a large number of new jobs. Unemployment during that decade was generally above the national average. Many found it necessary to leave South Carolina in order to work because there were insufficient opportunities for rewarding jobs here. Outmigration from the 1950's through about 1968 or 1969 was pronounced in the state. The Board's objective, therefore, was to generate a large number of jobs in order to provide work opportunities for those who were being forced to leave South Carolina in order to find gainful employment. This strategy worked well to improve the economic climate of the state because by the late 1960's, outmigration had stopped, and during the early 1970's, the state began experiencing an inmigration. Although there is speculation that this new trend in migration was the result of earlier out-migrants returning, few will dispute the idea that this new migration pattern was the direct result of industrial expansion and the creation of new, attractive manufacturing jobs. During the 1960's, the State Development Board recorded the announcement of 169,000 new jobs in manufacturing, while total employment grew by 198,000. Actual employment gains in manufacturing during the period reached only about 95,600, substantially less than the number of new jobs recorded by the Board. The difference in new jobs established and net gains in manufacturing is indicative of the transition the state's economy experienced during the 1960's. Had new jobs not been available to take the place of those lost, the state's economy would have suffered severely.

By the early 1970's, the unemployment rate in South Carolina had dropped well below the national average. With relatively full employment, the state was now in a position to change its strategy and to concentrate on development activity that would offer the greatest income potential for the work force. Income levels, though an important consideration, had not been the major objective of development efforts in the 1960's. The technical education system had been very successful in providing thousands with the basics necessary to attract industries requiring higher technical skills. Many workers had successfully made the transition from agriculture to manufacturing. So with relatively full employment, a more highly trained work force, and an unprecedented momentum for development, the Board was able to direct its attention to a strategy that would provide better paying jobs, diversification of the state's economy, jobs for people where they lived, and conservation of the state's resources and environment.



The Development Board is promoting its office location program through advertisements in national business publications. The ad on the left has appeared in **Business Week, Fortune** and **Forbes.** Those who respond to the ad receive a brochure (right) which describes what South Carolina has to offer to office operations.

James T. Lindsay, a veteran industrial agent experienced in working with foreign prospects and head of the State Development Board's office in Brussels, Belgium, explains the responsibilities of that office.

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A RURAL STRATEGY

Perhaps the most challenging areas in which the State Development Board seeks to influence development are rural areas and small towns. These sections generally do not have the industrial resources of larger communities and metropolitan areas. Their labor force is limited in numbers and in skills. Many of those in the work force have not been exposed to the structured environment of a manufacturing plant, and, for the most part, possess skills generally associated with agriculture and forestry.

Around 1970, the State Development Board adopted an informal policy of encouraging the development of rural areas and small towns. Although no formal program was established for the purpose, the Board did encourage industrial prospects to evaluate these areas as potential plant sites.

South Carolina has 261 incorporated towns and places. Of this total, 251 have a population of 15,000 or less, while 100 have a population of less than 1,000. Some have a population of only 100 or 200 and are marginal at best as industrial sites. With these statistics in mind, in 1976, the State Development Board initiated a formal small town and rural development strategy by establishing the "GREAT" Town Program. "GREAT" is an acronym for Governor's Rural Economic Achievement Trophy. The objective of this program is to help small towns become more viable as industrial plant sites. It is based on a self-help philosophy, and communities participate strictly on a voluntary basis. Only communities of 15,000 population or less are eligible for the program, and those that elect to join must go through a qualification process designed to help them prepare and present themselves in the best possible manner. Qualification is required in seven areas:

1. Establishment of a community sales team
2. Preparation of a community data and resource booklet
3. Identification of industrial sites
4. Creation of a nonprofit development corporation
5. Establishment of an existing industry appreciation program
6. Formation of a community appearance team
7. Preparation of a comprehensive audiovisual presentation on the community.

Since the program was initiated, 60 of the 251 eligible communities have become involved in the program, and 29 towns have qualified and been designated GREAT towns. In addition to its initial review, each GREAT town is required to go through an annual reaffirmation to ensure its continued compliance with the program's objective.

Although several new plants have located in GREAT towns since the establishment of the program, it is too soon to evaluate its impact on the development of these areas. Since 1970, when the State Development Board first adopted a strategy of encouraging development in small towns and rural areas, about 60 percent of all manufacturing investments for new plants has been in counties that do not have a community of over 15,000 population.

The problem of developing small towns and rural areas is not unique to South Carolina. Most other Southeastern states have a similar concern, and most have a program or strategy similar to South Carolina's GREAT town effort. The neighboring states of North Carolina and Georgia both have programs that emphasize development opportunities in small towns and rural areas.

A TEAM EFFORT

The State Development Board is assisted by a host of government agencies and private firms, all involved in the state's development. A long list of allies work together as a team on behalf of the state. Nongovernment organizations such as construction concerns, financial institutions, engineering firms, and others that provide service to industry have development departments with professional staff people who work directly with the Board. Some also have promotional and advertising efforts independent of the Board. Traditionally, railroads and such utilities as electric and gas firms devote substantial effort to the state's development. It is common practice for the Board to have these private interests involved directly with industrial prospects. These firms often identify potential investors and provide location assistance on their own and without major involvement by the Board. Their efforts are extremely beneficial to the state's development program. Without them, the cost of the development program to state government would be considerably greater. Their involvement is essential not only from the standpoint of cost but also in terms of credibility of the program. It would be extremely difficult for the Board to speak authoritatively to business and industry on such subjects as electrical supply, dependability, and cost. Commitments such as these can come only from those institutions providing the service.

The largest professional development organizational group of the state is comprised of local development boards, commissions, and chambers of commerce. Together they represent a force of a hundred or more. The professional staffs of these organizations are essential to the state's development program because they provide the information on their respective areas and, in many cases, act as spokesmen for essential community service commitments. There is little consistency in terms of counties or communities sponsoring a development program. In general, the professional staff of these organizations represent one or more counties, but in some areas there are only city or town development offices. There are instances in which counties have cooperated by combining their efforts into a multicounty program. Such is the case in two of the state's three metropolitan areas and in Allendale and Hampton Counties. The combined efforts of two or more counties is often the most effective way for the smaller counties to justify a full-time development representative.

Although the State Development Board is the primary agent, other organizations often have more influence over the success of the development program. The Board views as one of its major responsibilities that of providing direction and leadership for the development program. Other government and nongovernment organizations have as much, if not more, direct impact on development as does the Board. The Board is the selling agent of a product, South Carolina, created by all of these other interests of the state, private and public. Although the Board has an opportunity to influence some of these organizations, it has no direct control over policies and programs. Education, highways, taxes, finances, utilities, recreation, ports, medical services, and a host of other factors have controlling influences on the state's development. If these resources are not provided at levels acceptable to business and industry, the State Development Board has little in the way of attractive resources to promote. Thus it is important that South Carolina have a development program that involves all of these interests in the spirit of a team effort. A major contributing factor to South Carolina's development success is the general recognition by this team of the need for improvement in the general welfare of the state and its people. This concurrence on a common goal has been significant in the state's ability to project an image and establish special programs that are the envy of most states.

Taxes, finance, and worker training are three major areas in which special incentives have helped to create a business climate that has been beneficial to the state's industrial development. In the late 1950's, tax laws were enacted that would exempt the inventories of manufacturers from property tax. Additionally, a special tax provision was established to allow counties to exempt industries, meeting certain criteria, from other ad valorem taxes.

In 1967, the Federal Government enacted legislation to allow counties and local governments to authorize the sale of special industrial revenue bonds (IRB's) to help industry finance new or expanded facilities. South Carolina was one of the first states to pass required state legislation authorizing the use of these IRB's. Since income earned by investors is tax free, firms with acceptable financial strength can realize two to three percentage points below the going rate of interest on the bonds they sell. Although there is a limitation in the use of these bonds, they have been an excellent industrial development incentive.

Most who are involved in the state's development program agree that South Carolina's technical education system has had more favorable influence on the state's development than all the other incentives together. Diversification from pure textiles began in the 1950's in a major way. Agriculture, because of mechanization, released thousands of farmhands into the work force and the unemployed ranks. It became evident that many of these agricultural workers did not possess the basic skills to work in modern, high-technology industry. Many also were not familiar with the work habits of manufacturing. Rather, they were accustomed to working from sunrise to sunset, not working when it rained, and working only certain times of the year. After evaluating the characteristics of the labor force and its needs, the system of instruction, known today as Technical and Comprehensive Education (TEC), was created. The first school was established in 1962 as a center to train individuals for jobs found primarily in manufacturing and for other business-related occupations not requiring a college degree. The system then, as today, concentrated on two-year associate degree programs in chemistry, engineering, business, health, and other occupational areas requiring post-high school training but not a baccalaureate degree.

The associate degree programs have proven to be essential to the state's continued diversification and growth. In addition to these curricula, there is also a second part of the TEC system that has been just as important, if not more so, to industrial development. It is the Special Schools Division. This division of TEC provides pre-employment training for new and expanded industries. Workers are trained for specific jobs on equipment that is similar or identical to that to be used in the new or expanded facility. Manufacturing plants requiring large numbers of workers for the same or similar tasks find this program extremely attractive because it provides them with a work force trained for specific jobs in their plants. Like the tax and finance incentives, the worker training programs were designed to help reduce start-up costs for new or expanded facilities and to enhance profit potential during the first few years of operation.

Since the inception of the TEC system, more than 500,000 students, or almost half of the state's workforce, has taken advantage of one or more of the programs offered. The Special Schools Division has conducted training programs for 535 firms. These schools have helped prepare workers for specific jobs requiring skills often unique to a single employer. The special schools vary in duration from several weeks to several years.

South Carolina's technical education system has served as a model for a number of other states. None, however, have been able to duplicate the philosophy of the system or the management and operation of South Carolina's imaginative approach to worker training. Some states have given wage subsidies to new industry for on-the-job training while others have given direct grants to industry for their own training programs. It is the state-conducted, pre-employment aspect of South Carolina's program that seems to set it apart from most. Without a doubt, the attitude of the state's TEC Board and others responsible for its existence and operation is a key factor, making TEC one of the most important members of the state's development team.

SELECTING INDUSTRY FOR SOUTH CAROLINA

A question often asked of the State Development Board is "How and what types of industries do you select to locate in South Carolina?" The types of industries the Board is most interested in attracting are those that best meet the goals and objectives of the state, i.e., improving income levels, diversifying the economy, and creating jobs in areas where they are needed the most. Since the needs of different areas of the state vary, the Board attempts to encourage industries to locate where they will (1) have the most beneficial impact on the community, (2) meet the development objectives of the area, and (3) have the best opportunity to succeed as a profitable venture.

Investors, or industrial prospects, as they are termed in the trade, originate in a number of different ways and from a variety of sources. The Board's advertising program, designed to generate immediate inquiries and to build an image and awareness of the state and its resources, produces about 10,000 to 15,000 inquiries annually. The Board advertises in general circulation magazines such as the Industrial Editions of **Business Week, Fortune,** and **Forbes.** Trade publications have also been very effective in promoting the state to industrial firms. Not all of these inquiries, of course, are legitimate investors. Some may be students, curiosity seekers, or individuals who would simply like to move to South Carolina.

Inquiries in response to the Board's advertising program generally are made directly to the agency. Some, however, are made to other development interests. Utilities, railroads, local chambers of commerce, and similar organizations frequently receive inquiries directly from industrial firms or their representatives. A direct inquiry to the State Development Board, however, is the route used most often by business and industrial prospects. The Board's advertising program is designed to meet two objectives: (1) to generate immediate inquiries and (2) to build an image and awareness of the state and its resources.

The state has the advantage of various types of promotion other than paid advertising. Many of the firms demonstrating an interest in South Carolina are doing so because a friend or key executive with a related firm, division, or subsidiary spoke favorably about South Carolina. Other prospects are generated by existing industries in the state. These industries frequently tip the Board to a firm they are purchasing from with the idea of both helping the state and establishing a more convenient supply source for their own materials or services.

The Board's advertising program prompts responses from all types of investors. In addition to inquiries resulting from the ad campaign and some unsolicited interests, the Board concentrates efforts on certain industries it feels would have substantial potential for locating in the state. These "target" industries are those that would add significantly to the industrial base and provide the type of investment and jobs consistent with the state's development strategy. Industry types are screened from a list of all industries for such requirements as raw materials, labor, transportation, environmental impact, and markets. Those surviving the screen then become target industries for future solicitation efforts. Those industries with above average growth potential generally represent the best immediate opportunities for the state. If an industry is not growing, its need for new or additional production facilities is questionable.

The target industries then are contacted by the agency through direct mail, telephone, or personal visits. A technique used successfully for a number of years by the Board is a so-called "team trip." These trips are usually to large industrial areas, such as New York, Chicago, or Los Angeles, with the express purpose of making personal contact and establishing a rapport for future development. Teams usually consist of 8 or 10 people with representation from the State Development Board, railroads, utility companies, banks, and local communities. It is not uncommon for key political leaders also to go on these missions. Many firm executives in areas where government gives them little attention are impressed when they receive a visit or call from the Governor of South Carolina. Usually, these team trips result in several successful contacts that ultimately lead to a new plant for South Carolina.

A host of professional plant location service organizations are retained to select plant sites for manufacturing firms that contribute to the state's development effort. National service organizations such as Fantus, a Division of Dun and Bradstreet; A.T. Kearney; and Arthur D. Little all have substantial departments specializing in plant location assistance. There are also a large number of consulting, engineering, construction, and financial firms in South Carolina that have similar services. These organizations usually work with the State Development Board in their evaluation of the state's resources. Sometimes, however, these groups may locate an industry without the benefit of the Board's advice.

Not all industrial development is from new firms. On the average, half of the investment by manufacturing firms in a given year is from the expansion of existing industries. In 1978, about 75 percent of the year's total was from existing firms. This was the highest expansion percentage ever recorded by the agency. An analysis of those investments revealed that, although they were existing industries, over 60 percent had been begun after 1960. Had the state not been successful in attracting new firms in the 1960's and early 1970's, much of the expansion that took place in 1978 would not have been possible. The absence of substantial new investments in 1978 and the role of expanding industries demonstrate the need for a consistent and regular infusion of new capital to maintain a healthy economy and to create the economic base for future expansion.

Perhaps one of the biggest myths about industrial development concerns the number of industrial plants that relocate. Although some of the new firms that have located in the state are the result of a plant closing in another area, the majority of South Carolina's new industrial growth is from added capacity. Industrial, commercial, and consumer markets have been growing at rapid rates in the South during the past 20 years. Transportation costs have also grown, making it less profitable to ship from other regions of the nation into this growing area. As a result, many firms have found it more profitable to build new, modern plants that are closer to this market. The South's general attitude toward growth and development has also added to this area's desirability. Although the Board has never refused to assist an industry that was relocating, it does not devote special efforts to seek out such firms for the purpose of persuading them to close and relocate their facilities.

SELECTING SITES FOR INDUSTRIAL PLANTS

The process of selecting a specific site for an industrial plant often involves a very complex series of decisions. The ultimate decision may take several years or only a few months, and the requirements vary greatly. From the time the State Development Board learns of the firm's interest, the average project takes about 18 months to select a site. There are no set rules for selecting a plant site because each facility is unique and each firm's management strategy is different. There are, however, at least four basic requirements that must be satisfied in all plant site decisions: labor, transportation, markets, and raw materials. The rank order of these requirements will vary from industry to industry, but they must all be satisfied for a successful operation. Some firms will have transportation as the top priority because of the critical nature of their raw materials or finished product and the ratio of transportation costs to total unit cost. On the other hand, some others may consider labor skills or raw material sources the most important factor.

The first decision a firm obviously must make in order to be interested in a new plant site is to expand or relocate. Once that determination has been made, a region is usually identified, based on one or all of the four basic requirements. States and communities within the selected region are then evaluated based on their ability to provide the basic, and a number of other, site selection criteria. At this point in the process, state and substate development programs and incentives become a part of the location process. It is also at this point that the competitive position of a state in terms of taxes, livability, education facilities, land availability, transportation, labor availability and cost, worker attitude, and overall business climate, as well as a host of other local factors, come into play. As might be expected from its success, South Carolina compares favorably in most considerations and with most other states. The business climate, which is loosely defined as those things government can affect, is extremely important and has been a big selling point for South Carolina. It is not necessary that South Carolina have the absolutely best tax package or the best industrial financing program as long as it is competitive. Stability is also a key element. Business investors become anxious when laws change frequently, reflecting an uncertainty for the future. South Carolina's stable government and conservative fiscal policy have been important in this state's development program.

Another myth often associated with industrial development is that the State Development Board can locate industrial plants anywhere it chooses. The Board has no dictatorial authority to demand that industry build its plants in any location. There are some regulatory agencies, such as the Department of Health and Environmental Control, that can influence industry not to build in a given area by denying required permits, but no agency of government has the authority to demand that industry locate in a particular place. The final site selection is usually the location that offers the greatest profit potential. Although the Board, through its advertising and site selection assistance, can influence a firm to locate in a community, the ultimate decision must be between the industry and the community. The choice on the part of the community to accept the industry and the industry's choice to locate are made independently of the State Development Board.

Usually an industry must be welcomed and encouraged by a community before it elects to locate. There have been only isolated instances in which industry has located in a community where it was not encouraged.

Agencies such as the State Development Board have been compared to a marriage broker. They both bring two parties together for what is often a very close and lasting relationship. The Board, as does the broker, must use good judgment in its recommendations, but it has little to do with the final commitment. Accordingly, if the recommendation is ill-advised, the relationship probably will not be a lasting and mutually beneficial one.

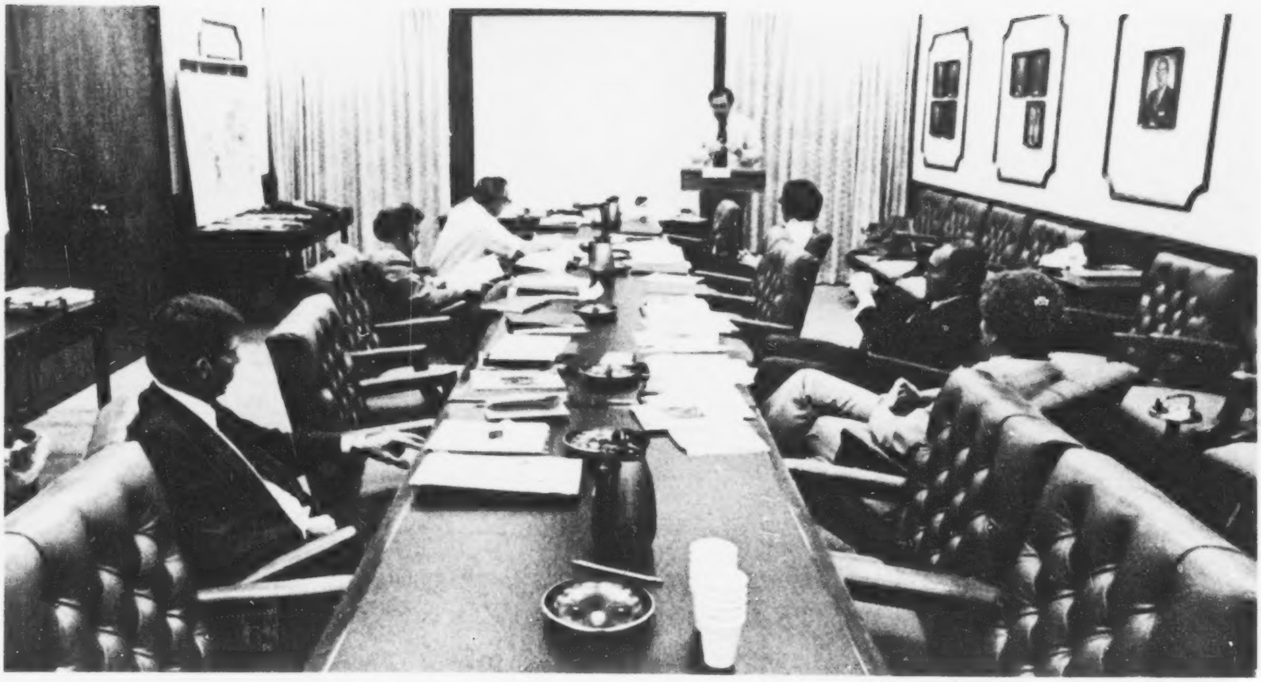
The process for domestic and international firms is generally similar. International firms have the added step of selecting first the country in which they will build. Once that decision has been made the other steps are almost identical to those in a domestic expansion. Notable exceptions are their interest in national laws and regulations and other factors related to conducting business in the United States.

PROGRAM RESULTS

Much of the new industry that has located in South Carolina during the last 20 years or so has done so, directly or indirectly, because of the concentration of textile firms in the state. Most of the investments in chemicals have been for synthetic fiber production, which is directly dependent upon textiles, and a substantial number of the new metalworking plants that have been constructed are for the manufacture of textile machinery and equipment. It has only been in recent years that substantially more nontextile-related industries have located in the state. There have been significant investments in rubber and plastics, primary metals, electrical and nonelectrical machinery, and electronics since 1970 that are not totally supportive of textiles. This trend in diversification is important in terms of establishing a more balanced and stable economy in the state.

Achievements in industrial development in South Carolina have been significant. Diversification in manufacturing has taken place as evidenced by the fact that textile employment declined from 54 percent of total manufacturing employment in 1960 to 37 percent in 1979. Productivity of the industry, on the other hand, has increased. The growing importance of nonmanufacturing activity is also evidenced by the fact that since 1960, manufacturing employment as a percentage of total employment has declined from 42 percent to 34 percent. Durable goods manufacturing has grown from 18 percent of total manufacturing employment to nearly 30 percent.

Investment trends have remained relatively stable since 1960. On the average, the manufacturing industry invested about $394 million anually during the 1960's. Due partly to inflation, but primarily to more capital intensive investment, the average for the 1970's thus far is about $698 million. In 1960, the average investment per new



The State Development Board conducts a briefing for businessmen several weeks before each trade mission departs South Carolina. Included in the briefing is information about the customs, methods of doing business, and current economic and political conditions in each country to be visited.

Max Heller, right, conveys an attractive glass platter to H. K. Shao, head of a Taiwanese trade delegation that recently visited the Palmetto State to purchase $17.5 million worth of South Carolina soybeans — the third largest purchase by the Taiwanese in the past 17 months.

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job created was $17,788 as compared with over $60,000 in 1978, an increase of more than threefold.

The largest share of new jobs in manufacturing in the 1960's was created in textiles and metalworking. Each represented about 26 percent of the total. However, in the 1970's, metalworking accounted for nearly 35 percent of total new jobs while textiles represented 18 percent. In 1978, metalworking accounted for 44 percent while textiles represented 14 percent.

In terms of investment dollars, chemical and related industries have accounted for the largest share. During the 1960's, chemical industries invested nearly 35 percent of the total. The second largest sector was textiles at 23 percent. In the 1970's chemicals were the largest sector with over 40 percent of the total. Metalworking was the second largest and ranked third.

One of the most significant changes in the state's economy during the 1960's and 1970's has been the shift from nondurable to durable goods manufacturing. In 1960, 82 percent of the state's manufacturing employment was in nondurable goods industries. By 1978, nondurable employment represented 70 percent of total employment, while durable manufacturing employment had grown from 18 percent to 30 percent. This shift is also important in terms of establishing a more stable economic base for the state.

During the 1960's, the state averaged siting 72 new manufacturing plants each year. The average dropped slightly during the 1970's to 58 per year. The largest number of new plants announced in a single year, 87, was in 1969. The average new plant in the 1960's employed 110 workers while the average in the 1970's was only 47, reflecting the change in the Board's development strategy.

Although wages and personal per capita income still lag behind the national and Southeastern averages, substantial progress has been made. In 1960, per capita income in South Carolina represented 63 percent of the national average. In 1978, the state stood at 80 percent of the national average.

THE INTERNATIONAL CONTRIBUTION

Foreign investments have played a significant role in industrial development in South Carolina. The state has performed extremely well in attracting foreign manufacturing firms. At present, there are about 110 foreign firms in South Carolina. Their investments represent over $2.5 billion and they provide direct employment for more than 26,000 workers. West German firms have the largest total investment in the state, while the French represent the largest investment by a single firm. The largest project is a joint venture between an American and a Japanese firm. On the average, dollars invested by foreign manufacturing firms represent about 35 to 40 percent of annual total investments. The most significant investments have been made in chemicals and related industries. They represent over half of total foreign investments. Rubber and miscellaneous industries are the second largest, at 21 percent of the total.

The State Development Board has two international programs. One is directed at increasing the sale of South Carolina produced goods in overseas markets, and the other concentrates on attracting foreign investments in manufacturing facilities. It is not the policy of the Board to encourage investments in nonproductive speculative ventures such as agriculture, forestry, mining, or any other land acquisition that does not result in the creation of new jobs. Although some foreign industries in the state have substantial landholdings, they are generally plant sites or represent production resources that are used in manufacturing.

The State Development Board sent its first reverse investment mission to Europe in 1967. The mission team, which consisted of the Governor and several other key business and political leaders, made the trip based on the premise that it would be better for South Carolina and the country to have foreign firms to create jobs in South Carolina than to import finished goods. Although South Carolina was not the first to recognize the potential of reverse investments, it did very quickly become a leader for others to emulate. Today, almost all of the Southeastern states have offices in foreign countries and international advertising programs.

Increasingly, foreign firms are finding the United States a more attractive investment opportunity. For the Europeans, the political and economic stability of the United States is an attractive force. Firms in the Far East find it increasingly difficult to compete for the American market on an export basis because of the rapidly rising cost of production in their homelands. As a result, they are investing more in the United States to salvage their share of the market. South Carolina's established foreign industrial base, its excellent business climate, and worker attitude have attracted, and will continue to attract, the attention of these investors.

A NEW ERA OF COMPETITION

In the 1960's, South Carolina, like most Southern states, was successful in providing jobs for those who wanted to work. With the objective of raising incomes, these states revised their strategies in the early 1970's to attract capital intensive, high wage industries. The traditionally industrial states of the Northeast began, at the same time, to realize that industry was not expanding in their area and some were even relocating to the South and other regions. These older industrialized states began adjusting their development programs and state business climates to be more attractive to industrial investors and more competitive with the booming South. Thus, a new, competitive era of industrial development began.

The special technical training programs that had worked well in the South were modified to fit the demands of existing industries in the North. Several states rewrote tax laws to provide special incentives similar to those offered in South Carolina. In order to be more attractive, some have adopted development incentives more favorable than those offered by South Carolina and most other Southern states. Pennsylvania created, for example, considerable attention all over the world when it attracted Volkswagen to a vacant Chrysler plant with a $40-million direct loan from tax funds. The loan was at a rate of interest several percentage points below the prime commercial rate. Other states, such as New York, New Jersey, Massachusetts, and Connecticut have adopted new tax laws and tax incentives that represent a reversal in attitude and a drastic change in policy for industrial development.

The competition for capital investments among the states is significant. Manufacturing industries are expected to invest about $80 billion in 1979. Every state in the Union will be vying for its share. If these investments were equally distributed among the states, South Carolina could expect to receive about $1.6 billion. However, these investments will not be shared equally by all of the states. Those states that are large in population, industrial base, and geography can be expected to receive more in absolute terms than the smaller states. Over the years, South Carolina has, as measured by these indicators, received more than its proportionate share. Compared with other Southeastern states, and based on population, South Carolina received 140 percent of their proportionate share of investments in the Southeast over the past several years. In terms of existing industrial base, as measured by manufacturing employment, South Carolina received 106 percent of investments in the Southeast; based on land area, this state received 136 percent of the Southeastern total.

Most Southeastern states have like development programs and offer similar incentives to encourage capital investment. Kentucky has a development authority that provides low interest loans to communities for the installation of water and sewer facilities, the development of industrial parks, and other improvements essential for attracting manufacturing investments. Alabama is especially noted for its tax-free industrial bond financing. Under that latter state's provision, industries using state authorized industrial revenue bonds are exempt from all real and personal property taxes for the life of the bonds. Bonds may be issued with no maximum limit. If the issue is in excess of $10 million, the Federal income "tax free" provision is lost, and the bonds sell at higher interest rates than those qualifying for the exemption, but the industry still has substantial tax and interest savings. Mississippi recently enacted similar legislation. Louisiana, just this year, passed a new law that guarantees it will match any tax incentive offered an industry by another state.

South Carolina has an IRB financing program, but does not authorize bond sales not complying with the Federal Industrial Revenue Bond Finance Act. As in Alabama, facilities financed with IRB's are exempt from property tax because the county actually holds title to the property and would not pay itself taxes. However, in South Carolina, industries using IRB's must pay the county a fee equal to, and in lieu of, taxes. Bonds issued in South Carolina do not obligate the credit of the state or local governments.

Financing incentives such as IRB's are offered by 48 of the 50 states. Every state but California and Idaho offers industrial revenue bonds. In addition, 21 states have state-supported lending authorities that provide direct loans to industry, and 8 states allow the issuance of general obligation bonds to finance industrial plants. Tax incentives among the states are the most popular financing incentives and are widely offered. All states have at least 1 tax incentive: 27 offer a tax moratorium for a varying number of years on ad valorem taxes, 39 exempt inventories of manufacturers from property taxes, 23 exempt corporate income tax, 43 exempt inventories in transit, and all 50 exempt pollution control equipment from property taxes.

Incentives usually are not the most important factors in plant location decisions, but they are the little extras that get attention or swing the decision in favor of one state or area over another when all other things are equal. Since most states now have incentives, they are not, of course, the plus they once were, but their absence is generally viewed as a negative.

Competition for industry is not confined just to the United States. Many foreign countries have far-reaching programs. Ireland, for example, provides direct grants to industry willing to locate in certain regions of the country. Generally, the more distressed the area, the bigger the concession. In some regions of Ireland, the capital cost may be almost totally absorbed by the government in exchange for the new jobs, management know-how, and the production capacity of a new industry. Some foreign countries also provide special tax incentives to encourage firms to produce for export markets. Puerto Rico has long been noted for its tax and financing incentives. On the island of Freeport in the Bahamas, there are no taxes — sales, income, or property. Its only source of tax revenue is import tariffs. However, even these tariffs are exempt for manufacturing industries that build plants on the island.

In total, states spend about $32 million annually to operate industrial development departments. Pennsylvania has the largest budget at almost $12 million while Wyoming has the smallest at $45,000. As a group, the states spend over $70 million annually in promoting and advertising their states to industry. The industrial editions of **Business Week, Fortune,** and other leading business magazines and trade publications contain numerous ads from states, communities, regions, railroads, banks, utility companies, industrial parks, and other industrial development interests. All are promoting their areas' resources, advantages, and incentives.

DEVELOPMENT IN THE FUTURE

The key to the state's future lies in well-managed, quality growth. Development in coming years must be a well-planned and orchestrated effort. The challenge is still to improve income levels to at least the national average. If the rate of growth for the nation as a whole and for South Carolina remain the same, South Carolina can expect to achieve the goal of equaling the national average of per capita income by 1995. It is doubtful, however, that the state, as it approaches the national average, will be able to maintain its present high rate of growth. During the 1960's and the early 1970's, much of the state's rural population was squeezed from the farm by mechanization. These displaced farm workers possessed few skills required by industry. Their need, willingness, and desire to learn new jobs represented their major resources. With the aid of TEC special schools and remedial educational training, many have now been equipped to hold other jobs — some in manufacturing and a large number in service activities. This supply of labor in the future, however, will be limited because the exit from the farm has slowed and perhaps even stopped. Agricultural employment in the state now accounts for only about 3 percent of total employment. Based on a current labor force of about 1.2 million, this represents only 36,000, a majority of which will be required to sustain agricultural activity in the state. With this loss of transitional labor, the state in the future will be forced to place more emphasis on industries that demand higher skills but fewer people if it is to maintain growth and development.

Major industry types identified as having potential for the state's future development include pulp and paper, electronics, synthetic fibers, transportation equipment, medical and surgical equipment, primary metals, and a number of other durable goods industries. Recent developments in transportation, metals, and electronics highlight the growth potential of these industries. Michelin Tire Company, a French-based firm, currently has three plants in the state and plans for a fourth. Monsanto, one of the nation's leading firms in electronics and chemicals, has announced its intentions to establish the world's largest silicon chip plant in Spartanburg County. The silicon wafers, which will be produced in this plant, are the building blocks for most modern technology electronics. In 1977, Alumax, a joint venture between a U.S. corporation and two Japanese firms, began construction in Berkeley County on a $400-million aluminum smelting plant. The investments, jobs, and economic activity stimulated by these facilities are themselves significant, but the potential for future development is perhaps even greater. The aluminum and electronics facilities in particular are important because they will be producing a manufactured raw material for other firms to use. These new, nonnatural resources will add another dimension to the state's economy and an excellent opportunity for future growth.

Industrial development activity in the future will be influenced less by economic factors and more by environmental considerations. Solid waste disposal, water effluent, and air quality will play an ever increasing role in industrial plant siting requirements as manufacturing activity in the state grows and industrial land becomes less available. Regulations governing air quality are a good example of the significance attached to environmental quality today. At the present, new industry or expanding existing industry must receive a permit or assure regulatory authorities they have no air emissions before building a new facility. In some areas of the state, air quality is not up to national standards. In these areas air discharges must be reduced before a new source is allowed to build a plant. In areas that have been set aside as national monuments or as highly restricted zones, air standards are much more stringent and often affect the development potential of surrounding areas for as much as 40 or 50 miles.

Industrial development in these highly restricted areas is virtually nonexistent. Such is the case around the Cape Romane Wild Life Refuge near Georgetown. The U.S. Department of the Interior is presently considering reclassifying the Congaree Swamp National Monument as a highly restricted area. Such a reclassification could eliminate future industrial development in the Columbia metropolitan area. Because of these external forces, South Carolina will no doubt be forced to be more selective in its development program, and adjustments will need to be made.

The impact of energy on development may cause the state to reverse its strategy from placing jobs in areas where they are needed most to encouraging the development of larger industrial areas near population centers. Because of these and other limiting factors on development, it will be an even greater challenge in coming years for the state to provide jobs in areas where they are needed, and to maintain a development effort sufficient to satisfy the needs of a growing state.

* * *

Although the South Carolina development effort may take a different slant in the future, the outlook for the state's growth in coming years is positive. This state is just beginning to realize its potential. Awareness among business and industry all over the world of South Carolina's resources and advantages is at an all-time high. South Carolina's strategic location in the fast growing Southeastern region of the United States will continue to be a definite advantage. With the state's well-earned image of being a good place to make profitable investments, as well as a good place to live, South Carolina will no doubt continue to be a favorite location for business and industrial investment.

Governor Richard W. Riley, left, joins top officials of Kayser-Roth Corporation, Allendale Division, for groundbreaking on the firm's new plant in Fairfax.

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The Problems of Small Businesses in the South Carolina Travel and Tourism Industry

By John A. Pearce II, Bruce R. Schmidt, and Fred R. David[1]

IMPORTANCE OF THE TOURISM INDUSTRY TO SOUTH CAROLINA

Expenditures by tourists in South Carolina have increased greatly in the past few years. Tourism is now the second largest industry in the state.[2] Recent figures show a 215 percent rise in traveller spending in South Carolina from 1973 to 1978.[3] Tourists currently spend $1.7 billion annually in the state[4] which ranks South Carolina 20th nationally in travel expenditures.[5] Travel-related expenditures by nonresidents in 1978 also provided jobs for 59,300 persons in South Carolina who earned total wages and salaries of $430,000,000.[6]

Surprisingly, South Carolina ranks only 43rd in the nation in average spending per tourist per day,[7] indicating that the industry offers considerable growth potential. This measure consists of spending on food, lodging, and transportation. Spending on transportation in South Carolina is very low, which can be explained partially by the small size of the state. Another contributor to the poor overall

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[1] The authors wish to acknowledge the contribution of the Small Business Development Center of South Carolina whose financial support made this research project possible.

[2] South Carolina Department of Parks, Recreation, and Tourism, **Tourism: What Its Economic Impact Means to South Carolina** (Columbia, S.C.: South Carolina Department of Parks, Recreation, and Tourism, 1979), p. 2.

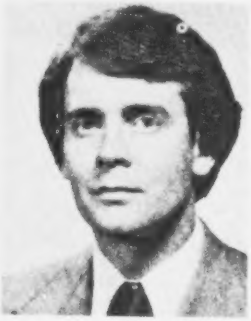
[3] Ibid., p. 3.

[4] Idem, **1972-1978 South Carolina Travel and Tourism Data**, p. 4.

[5] Business Research Division, University of Colorado, **Travel Trends in the United States and Canada** (Boulder: Business Research Division, University of Colorado, 1978), p. 75.

[6] Parks, Recreation, and Tourism, **Tourism: What Its Economic Impact Means**, p. 2.

[7] Business Research Division, **Travel Trends**, p. 47.



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Fred R. David is a Ph.D. candidate in Business Administration in the College of Business Administration at The University of South Carolina where he is majoring in Management and minoring in Marketing. David earned his B.S. Degree in Applied Mathematics and his M.B.A. Degree at Wake Forest University. He is a former member of the faculty at Pembroke State University.

FIGURE 1
TYPES OF BUSINESSES RESPONDING

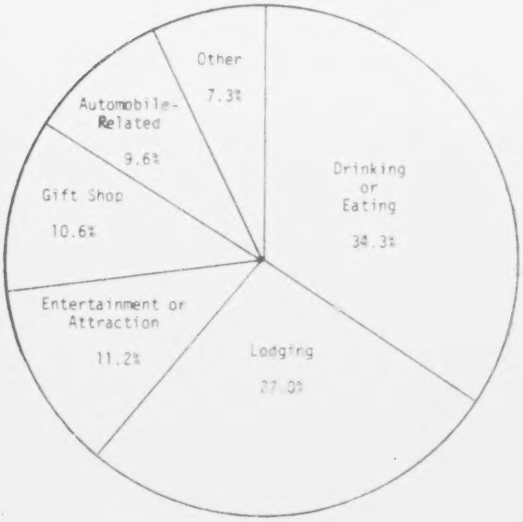


Figure 1 shows the variety of businesses that responded to the questionnaire. Nearly 60 percent of the respondents were from the eating, drinking, or lodging segments. (Note: Managers who indicated involvement in a combination of lodging and their businesses were classified only in the "lodging" category.)

ranking is food expenditures, in which South Carolina is ranked as one of the lowest in the nation. Partially offsetting the low expenditures on food and transportation is spending on lodging, in which South Carolina ranks in the top half of the nation.

Another indicator of the strength of tourism in this state is the total annual number of tourists, in which South Carolina places 20th.[8] The number of visitors with South Carolina as their primary destination has increased by 85 percent during the last six years.[9] The 1978 statistics show that nearly 45 percent of travelers in South Carolina visit during the summer. These June, July, and August visitors stay an average of six days, compared with about four and one-half days during the rest of the year.[10]

South Carolina does make special efforts to increase its tourism trade: it ranks a very high 6th in tourism advertising expenditures in the nation.[11] Only Pennsylvania, Michigan, Florida, Virginia, and Hawaii spend more.

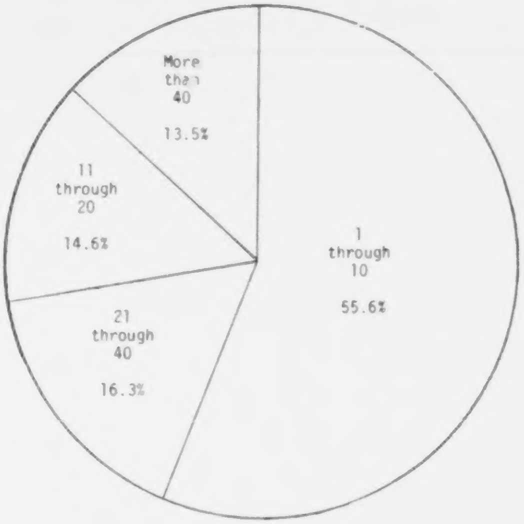
PREVIOUS RESEARCH INTO THE PROBLEMS EXPERIENCED BY TOURIST BUSINESSES

A subcommittee of the United States Senate was established three years ago to formulate a national tourism policy. In the process of developing the planning guidelines, major problems for tourist businesses were explored. Regional teams of government officials and managers of tourism and travel businesses prepared a list of 12 major problems in the **National Tourism Policy Ascertainment Phase.**[12]

The national study found the travel and tourism industry to be highly fragmented, which resulted in uncoordinated planning, development, and promotion, and tended to decrease profitability. The subcommittee hypothesized that better coordination would lead to increased profits.

A second finding of the national study was that the availability of capital was declining, especially in the lodging, entertainment, and attraction segments of the industry. In addition, seasonality

FIGURE 2
NUMBER EMPLOYED BY RESPONDENTS



Most of the responding businesses employed 10 or fewer employees, as Figure 2 reveals. Nearly three-fourths of the businesses employed 20 or fewer persons.

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[8] U.S. Travel Data Center, **1976 National Travel Survey: Full Year Report** (Washington, D.C.: Government Printing Office, 1977), p. 71.

[9] Parks, Recreation and Tourism, **1972-1978 South Carolina,** p. 5.

[10] Ibid., p. 5.

[11] Harris, Kerr, Forster and Company, **Travel and Tourism Advertising Expenditures in United States Measured Media** (New York: Harris, Kerr, Forster and Company, 1977), p. 24.

[12] U.S. Congress, Senate, Subcommittee on Tourism, **National Tourism Policy Study Ascertainment Phase,** 1977: 11-15.

cycles were felt to be a large problem for small businesses. Imaginative development has lessened this problem for larger businesses, but development has not been adequate for small businesses.

The declining availability of gasoline was recognized as a very significant problem, as were per gallon prices. Since the travel and tourism industry accounts for approximately 10 percent of United States petroleum consumption,[13] the national study warned government officials that week-end gasoline closings would be devastating to the tourism industry.

The national study determined that there was popular opposition to further tourism development. Many people believe that out-of-state travelers come into their community, use up the local resources, decimate the environment, and leave without having made any valuable contribution.

Another area of conflict involved environmental groups. The national study suggested that explosive growth in the tourism field combined with increased pollution to produce a conflict between the need for tourism development and the need to protect the environment.

FIGURE 3
RESPONDENTS' ANNUAL SALES VOLUME

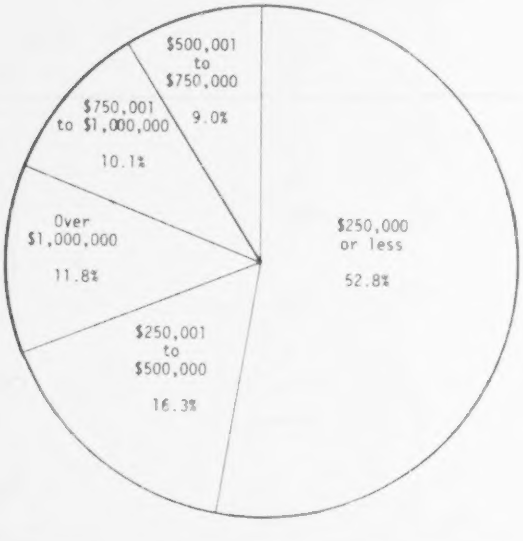

Figure 3 reflects the size of the businesses responding. More than 50 percent of the businesses had an annual sales volume of $250,000 or less, and a total of 70 percent had annual sales of $500,000 or less.

FIGURE 4
PERCENTAGE OF SALES DERIVED FROM TOURISM

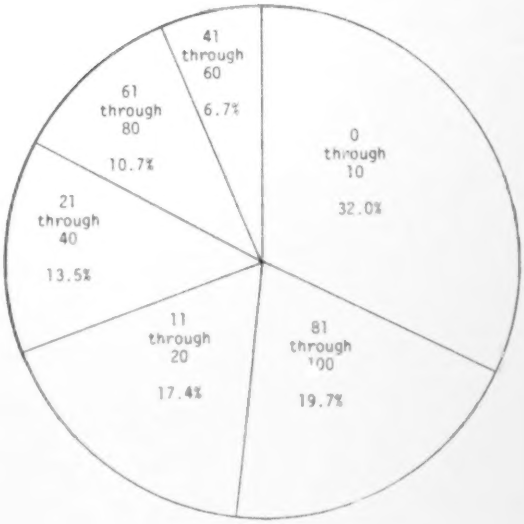

Figure 4 indicates that many of the responding businesses did not feel that they were dependent on tourism to generate sales. However, nearly 20 percent felt they were totally dependent on tourism for sales, and another 15 percent felt that approximately half of their sales were derived from tourism.

The national study also identified the existence of competition between government and private business for development on or near public land as an important problem area. Publicly-owned attractions and facilities enjoy certain tax benefits, are often subject to less rigorous regulatory standards, and often can afford to be unprofitable because they are subsidized. These factors create unusual competitive difficulties for private small tourism businesses.

According to the national study, promotional activities of tourism offerings are characteristically inadequate. This inadequacy, the study argues, denies businesses access to potential customers who lack adequate information. The problem was found to apply to both foreign and domestic travel markets.

Another conclusion of the national study was that, in many cases, there was inadequate data available to allow tourist businesses to carry out effective planning. Even where data existed, many managers of tourism businesses were found to believe that planning was unnecessary. The resultant lack of planning presented obstacles to attracting greater capital investment by investors outside of the tourism industry.

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[13] U.S., Travel Data Center, **Importance of Tourism** (Washington, D.C.: Government Printing Office, 1975), pp. 9 and 10.

A final finding of the national study was an inability of the tourism industry to attract a sufficient number of talented people into the industry as a permanent career. They cited lack of prestige of the industry and too few training programs at the university level as reasons.

Other experts have suggested that the high rate of inflation could decrease people's interest in travel. Strangely, this problem was not addressed by the national panel.

THE SOUTH CAROLINA STUDY

The national study had several limitations. First, it was conducted in 1976, and the relative severity of tourist business problems may have changed since then. Second, the problems were concerned with tourist businesses across the nation. South Carolina businesses may not have the same problems, or at least not with similar magnitudes.

In view of these limitations, a study was undertaken to determine the degree to which South Carolina tourist businesses experience the problems identified by the national study. This state study was performed through the Tourism Business Center of the Small Business Development Center of South Carolina. The businesses included in the study were selected through the use of the Standard Industrial Classification Code. Questionnaires (one-page) were mailed to managers of tourist businesses, with return postage provided. The questionnaires, based heavily on the findings of the national study, were sent in October 1979, and 178 usable responses were returned.

The managers were given a list of 12 problem areas identified by the Senate subcommittee, plus an inflation-related item. They were asked to rate

TABLE 1. Overall Ranking of Tourism Business Problems by All Managers

Problem	Ranking Today	Ranking in Five Years
Gasoline prices are rising	1*	1
The rate of inflation is decreasing peoples' interest in travel	2	3
The availability of gasoline is declining	3	2
The availability of capital is declining	4	4
Seasonality cycles have a negative effect	5	5
Planning is inadequate for local tourism development in order for local businesses to be most profitable	6	6
There is a conflict between the need for tourism development and the need to protect the environment	7	7
There is inadequate promotion of tourism attractions, sites, facilities, and services	8	8
The industry is fragmented, i.e., businesses that need to work together are not	9	9
There is inadequate promotion overseas of travel opportunities in the United States	10	13
There are too few skilled people available for employment in the tourism field	11	11
There is opposition to further development of tourism facilities and services	12	12
There is competition between government and business for development on or near public lands	13	10

*1 = most serious.

TABLE 2. Average Rating Given to Tourism Problems by Each Type of Business

Type of Business	Average Rating*	
	Today	In Five Years
Automobile-related service	2.94	3.24
Lodging	2.96	3.09
Eating and drinking	2.97	3.15
Entertainment or attraction	3.05	3.27
Gift shop or drug store	2.95	2.92
Other	2.29	2.45

*1.00 = managers for the specified type of business agree that none of the 13 tourism-related issues are problems; 5.00 = managers for the specified type of business agree that all 13 tourism-related issues are major problems.

the issues in terms of their current status as problems and also in terms of their anticipated severity in 5 years. The managers were also asked to provide descriptions of their businesses, the results of which are reflected in Figures 1 through 4 of this article.

THE FINDINGS

For the group of businesses that responded, the rising price of gasoline is considered the most significant problem, as indicated in Table 1. The decreasing interest in travel due to inflation and the declining availability of gasoline are the next most significant problems. In five years, the rising price of gasoline is still expected to be the greatest problem. However, the declining availability of gasoline is expected to be more problematic than the effects of inflation. All of the other studied problems are expected to stay in the same order of impact, with the exception of competition between government and business for development on or near public lands, which is expected to become an increasingly, albeit relatively minor, problematic area.

TABLE 3. Average Rating of Tourism Problems by Managers from Different Areas of the State

Area	Average Rating*	
	Today	In Five Years
Coastal Area	2.95	3.06
Large Cities	2.68	2.91
Small Towns	3.05	3.17

*1.00 = business managers from an area agree that none of the 13 tourism-related issues are problems; 5.00 = business managers from an area agree that all 13 tourism-related issues are major problems.

Average scores given to tourism problems by each type of business are given in Table 2. The average could range from 1.00, in which case every business in the sample would agree that none of the 13 tourism-related issues is a problem, to 5.00, in which case every business in the sample would agree that every tourism-related issue is a major problem.

In general, the average scores awarded by types of businesses do not vary in a meaningful way. The average for the entertainment or attraction segment is the highest, but the difference between it and, for example, the average for the automobile-related service segment is not significant. Furthermore, almost all types of businesses included in the survey expect their tourism-related problems to intensify over the next five years.

With minor exceptions, each type of business reported rising gas prices, increasing inflation, unavailability of gasoline, unavailability of capital, and seasonality in their top five problems for the present, and expect these to be their top five problems in five years.[14]

In Table 3, average ratings for different areas of the state are shown. The "coastal area" includes the larger cities and the small towns on the coast; "large cities" is comprised of the metropolitan Columbia and Greenville areas; and "small towns" includes all other regions in the state. Tourism business managers from small towns reported the most problems, followed by the coastal area managers. The metropolitan area managers were a close third. Businesses in large cities foresee the greatest growth in problems, but still expect to have the fewest obstacles. All areas of the state view the rising price of gasoline and the declining availability of capital as major problems. In addition, the coastal area shows considerable concern for seasonality, while both large cities and small towns are troubled by inadequate planning for local tourism development.

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[14] Eating and drinking businesses see conflict between the need for tourism development and the need to protect the environment as one of their top five problems today and expect it to remain there in five years. In addition, gift shops expect fragmentation of the industry to be one of their top five problems in five years.

CONCLUSIONS

Tourism business managers who responded to the survey perceived current economic reversals as their most serious problems, probably because they are so unsolvable by an individual. No matter how good a manager is, he or she can be hobbled by problems of energy or inflation.

The expressed concern about the future by automobile-related service business managers is largely attributable to the vulnerability of their firms to increases in gas prices and decreases in availability of gasoline. Obviously, however, all of the businesses studied would be especially hard hit if the gas situation and the problem of inflation continue to gain momentum. Additionally, in as much as all types of businesses in the survey perceive comparable levels of problem severity, it can be inferred that no single type of travel and tourism business is especially susceptible, or immune, from industry problems.

There are three possible explanations for the responses recorded, given the fact that the rankings are almost parallel for today and for five years from now. First, that businesses in the sample may feel no major or concerted effort will be undertaken to solve their problems. Second, that businesses may feel their problems are characteristic of the tourism industry and cannot be solved. Third, that possibly travel-related businesses possess very limited ability to forecast the future and thus base their anticipations almost solely on existing conditions.

Regardless of which explanation is correct — it may even be a combination of the three — at least partial remedies can be developed. The key appears to be cooperation, principally among tourism business managers at a regional level. As the survey disclosed, tourism business problems are more common to the industry than they are characteristic of a business as defined by type, size, or location. At the same time, resolution of the problems is almost certainly beyond the resource or political capability of any single firm. Thus, cooperative efforts directed toward attaining common goals have improved odds for success because of the substantially greater power base that can be developed.

It is the opinion of these authors that the self-verification of tourism problems by business managers, as achieved through the South Carolina survey, is a significant step toward the elimination or prevention of obstructions to statewide travel industry growth and prosperity. It assures travel business managers of the shared nature of their difficulties and should reinforce their existing commitments to cooperative approaches for achieving their mutual objectives.

Problems with Private, Commercial Recreation Development in a Major Southeastern Reservoir Complex: South Carolina's Santee Cooper Country

By Thomas C. Vose

INCREASED DEMAND

Since the end of World War II, the use of state parks has risen dramatically — this is especially true for those parks encompassing ponds, lakes, or rivers. The recent explosion in recreational demand caught most professional recreation managers and planners by surprise. This demand has strained Federal and state agencies beyond their capacities to provide adequate, quality recreational opportunities for the public. The demand for water-based recreation has resulted in management problems and public concern about its availability. "Although thousands of acres of water with recreational potential have been created in the Southeast . . . no means has yet been found to assure the development of related recreational facilities."[1] The most serious problem facing recreational development on or near artificial water bodies is that the primary purposes for these water bodies, in most instances, are "navigation, flood control, . . . and power generation."[2] Compounding these management and developmental problems has been the rising rates of inflation and taxation.

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INFLATION AND TAXATION

In recent years, inflation and rising taxes have become causes of growing concern for taxpayers and public officials. California's Proposition 13 and other, similar measures across the nation are public responses to perceived waste and mismanagement in government. Historically, in times of austerity and budget cuts at various levels of government, it is the recreational budget that is the first and hardest to be hit.

Concurrently, or perhaps in response to these and other factors, state and Federal agencies have begun recently to review and revise their respective roles in the provision of recreational facilities and services to the public. "Current Federal policy recognizes that recreational services are the responsibility of state and local governments and the private sector."[3] There is some doubt, however, that local government can carry out its responsibility because of fiscal restrictions.

In response, the Federal Government has recognized the larger role the private sector must play in the provision of increased recreational services to the public. In its 1978 Nationwide Outdoor Recreation Plan, the Heritage Conservation and Recreation Service (formerly the Bureau of Outdoor Recreation) acknowledges the lack of information and research on the private, commercial sector of the tourism/recreation industry. Subsequently, the Federal Government, in conjunction with other levels of government and various public and private groups, has begun to research and further define the role of the private sector. The report states further that

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[1] Raymond J. Burby III et al., **A Model for Simulating Residential Development in Reservoir Recreation Areas** (Chapel Hill, N.C.: Center for Urban and Regional Studies, University of North Carolina, May 1971), p. vi.

[2] Patrick Lavery, ed., **Recreational Geography: Problems in Modern Geography Series** (New York: Halstead Press, 1974), p. 208.

[3] Raymond J. Burby III et al., **Factors Influencing the Residential Utilization of Reservoir Shorelands in the Southeast** (Chapel Hill, N.C.: Water Resources Research Institute, University of North Carolina, 1970), p. vi.

> the private sector is demonstrating its competence to provide clean, wholesome, and innovative recreation . . . However, the Federal agencies — some 100 of them — are limiting, and sometimes even prohibiting, the private sector from performing its role.[4]

Governmental legislation and regulation impacts directly upon all phases and aspects of private, commercial recreation development, often to the detriment of the public. Severely affected by these frequently conflicting regulations, private operators are often hard pressed to continue operating. The obstacles to obtaining needed financing, often with insufficient collateral, force many to cease operating.

UNFAIR COMPETITION

Unfair competition from state and Federal agencies is often cited by private operators as a critical factor in the degree of success or failure of their operations. Although the private sector has a much better record of cost effectiveness in the delivery of recreational services, economic feasibility or cost benefit ratios should not be the sole, or even the major, factor in development of a public recreational facility. It should be remembered that it is the role of government to preserve and develop unique cultural and natural features for everyone's enjoyment and not just for those who can afford to pay the price.

Studies conducted in the Southeast indicate that reservoirs located in attractive surroundings and adjacent SMSA's (Standard Metropolitan Statistical Areas) attract much residential and commercial recreational development. Clare Gunn believes that waterways that include both urban and rural access promise to provide the greatest challenge for development and management of these resources. "It appears, where private investment in reservoir shoreline development occurs, that local fiscal conditions tend to improve"[5] by increasing land values. Areas that are otherwise economically depressed or stagnating can benefit from outdoor recreation development if such change provides the basis for sound economic development and progress toward an increased tax base that might not otherwise exist.

A BRIEF HISTORY

Public recreation has a very short history in South Carolina. The first state parks were not developed until the middle 1930's when the many public works programs were created to put people back to work. Up until that time, private, commercial facilities, if they existed within the region, were only available to those with money and, therefore, were beyond the reach of most Americans. One public works project that was destined to have a great impact upon South Carolina recreational development was the South Carolina Public Service Authority's Santee Cooper Project.

In April 1933, the first Santee Cooper Bill was introduced in the South Carolina Senate. In February 1934, a bill was introduced in the U.S. House of Representatives, and in July 1935, the President approved funding for the project through the Public Works Administration. Actual construction did not begin until April 1939, however, when law suits brought by three private power companies had been struck down by the U.S. Supreme Court. Construction began with the clearing of the Lake Moultrie Basin and the construction of 26 miles of dikes and 2 dams to divert the flow of the Santee River into the Cooper River.

Because of the emergency need for power brought on by World War II, only a mile-wide navigation channel was cleared through the present-day Lake Marion Basin, a fortuitous occurrence. Impoundment began in November 1941, and the project was declared completed a year later. Anadromous Striped Bass that were caught behind the dams when the flood gates were closed were soon forgotten, because most knowledgeable authorities assumed they would die off when they were unable to return to the sea after spawning. However, the striped bass ("Rockfish" locally) did continue to survive and reproduce among the submerged trees and brush in the Lake Marion Basin.

At that time, there were only two state parks in the region: Santee and Poinsett. Little, if anything, is known about private, commercial operators during the same period. The first commercial lease was issued by the Santee Cooper Public Service Authority (PSA) in late 1943. Since that time, a total of 80 commercial leases have been issued by the PSA, although only 61 have been engaged in actively providing commercial recreation services for the public. Additionally, the PSA has based areas for 52 vacation/residential subdivisions and 26 other areas to public or quasi-public organizations.

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[4] U.S., Department of the Interior, Heritage Conservation and Recreation Service, University of North Carolina, **1978 Nationwide Outdoor Recreation Plan: Task Force Report**, "Needs of Private for Profit Enterprise in Outdoor Recreation."

[5] Burby, **Factors Influencing**, p. 24.

Of concern to this article are the commercial leases only. The number of leases has grown from only 6 prior to 1950 to the present 80. During the 1970's, the number of leases issued failed to exceed that of the previous 10 years, and 8 facilities closed.

Lease rates are fixed according to a formula based upon size, location, and development restrictions. Annual rentals range from a low of $30.00 per year to a high of $7,914.00 per year.

Private commercial recreation operations are characterized by chronic shortages of capital investment, both for initial purchase and long-term capital improvement. Financing is difficult to obtain because of reluctance on the part of lending institutions to provide financing in what they consider, quite correctly, a high-risk business field. In an effort to assist commercial operators, the PSA, in 1962, extended the minimum length of commercial leases from 20 to 40 years. This was done to give lending institutions more confidence in receiving a return on their investment (R.O.I.), making it easier for commercial operators to obtain financing.[6] An indicator of the success of this policy has been the change of ownership of several facilities in recent years.

A SURVEY

A survey by this author during the period January to May 1979 was conducted by mail and personal interview, in an effort to gather data on the methods of operation and the perceptions of their market by private, commercial recreation operators. The names and addresses were obtained through brochures provided by the South Carolina Department of Parks, Recreation and Tourism and the Santee Cooper Counties Promotion Commission, an agency created by the state legislature in 1968 to promote tourism/recreational development in the region.[7] Replies were received from 26 of the 59 known commercial operators. Further checking showed that 7 additional operators had permanently closed down.

The 1979 survey indicated that neither PRT nor the Santee Cooper Counties Promotion Commission had either an accurate count of the facilities still in operation or a list of who is managing them.

The survey requested information on length of present ownership tenure, period of operation (seasonal versus year-round), number of persons employed, types and number of facilities and services offered, ranking of 10 activities in order of user preference, periods of heaviest use by South Carolina residents and nonresidents, regions of user origin, and types of advertising and amount spent on advertising.

SOME RESULTS

Advertising Practices

In the area of advertising, the presence, or lack, of sophistication in the use of the various media runs the full gamut. Some operators spend literally nothing, while others support comprehensive programs that make full use of major existing media and require many thousands of dollars to accomplish. One new owner stated that after he increased his advertising, his facility enjoyed its best season in several years (according to records kept by the previous owners). By comparison, another operator stated that if he had $1,500, he surely would not spend it on advertising. It was also implied, indirectly, that the money would not be used to maintain or improve the facility beyond its present condition.

Regions of User Origin

The survey results indicated quite clearly that the majority of facility users are from South Carolina. Although the majority of out-of-state users come from nearby Southern states, a significant number do come from the industrial Midwest. Several operators also commented that recreationists from North Carolina and other areas to the immediate north of the Santee Cooper Lakes tend to stay on that side of the lakes, although recreationists who are staying for long periods of time or who are familiar with the region will continue on to other parts of the Santee Cooper Country.

Services Offered

Next to lodging, fishing guide services is the service 19 of 25 respondents still in operation provide most often. One operator stated that fishing guides are not what the average individual might think. In South Carolina, a licensed guide is anyone who has passed a navigation and safety test administered by the U.S. Coast Guard. It does not necessarily mean that that person knows either how to fish or where to look to find fish under any given set of conditions. Comments made by other operators indicate that guide service is often a private arrangement between two individuals, only loosely coordinated by the private operator in a strictly unofficial manner, because of legal and insurance liabilities that would otherwise be incurred.

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[6] Correspondence with W. Andrew Burke, Santee Cooper Public Service Authority 14 November 1978.

[7] Interview with Robert F. Petracca, Santee Cooper Public Service Authority 19 September 1978.

A major complaint of private operators was the lack of sensitivity by the PSA and the South Carolina Wildlife and Marine Resources Department (SCWMRD) to the problems of fisheries management upon which, ultimately, lies the future of recreation, public or private, within the region. An increasingly important problem in recent years has been the spreading and choking off of quality fishing and spawning grounds by Brazilian elodea, commonly called aquarium grass. While chemicals have been used with mixed results, the most effective method of handling the problem seems to be that of drawing down the reservoir pools several feet below their normal levels and allowing the cold and dryness of winter to kill the plant. However, this action would seriously impair the PSA's ability to generate electricity, the primary purpose for the reservoirs.

> It should be noted that whenever possible, and without compromising their primary mission to produce hydroelectric power, the PSA has a long history of cooperation with fishermen and with the SCWMRD.*

Preferred Activities

The most important single activity engaged in by recreationists, according to those private operators responding, is sport fishing, followed closely by pan fishing. Camping and swimming were the next most popular activities, followed by boating (nonfishing), water skiing, and hunting. Surprisingly, picnicking was rated the lowest of the 10 recreational activities considered by the survey. This would seem to indicate that picnicking is only an incidental activity that coincides with the visitors' primary recreational plans.

Although several activities are commonly engaged in within the Santee Cooper Region, fishing is the primary attraction. Families may come to camp or boat, but were it not for the internationally famous fishing for land locked striped bass and large mouthed bass that is offered, recreationists would not come in the numbers that they do. While camping and swimming may be engaged in by the family as a whole, it is the fishing that occupies the attention of the father. The fact that there are other activities of sufficient quality to please the rest of the family simply makes the decision to come to Santee Cooper a much easier one to make.

It cannot remain for PRT and the Santee Cooper Counties Promotion Commission alone, however, to develop and promote this region. It is going to take a concerted effort by the private commercial operators working together. Lacking a single coordinating agency that is nongovernmental, perhaps the private commercial recreation operators should form their own organization so they can speak as one on matters affecting the lakes and their operations. In this manner, perhaps, they may gain input to decisions where currently they have none. It is of primary importance that PRT make a strong, directed effort to assist and guide the private, commercial operators already in existence in developing and further improving their methods of operation. Workshops should be conducted by experts within the fields of recreation and business in South Carolina, such as the Department of Parks and Recreation Administration at Clemson University, the HCRS, PRT, or the National Park Service.

In order for the private, commercial operator to continue to exist and prosper, it is essential that he make use of modern recreational business methods and that he remain abreast of new management techniques and tourism trends that affect his area of interest.

CONCLUSIONS

During a period of national development in which leisure time is becoming more available to all income levels and transportation is becoming more expensive, it is essential that recreation packages be made attractive to the whole family and/or make the trip worthwhile for the serious fisherman. A primary means to attract this group of recreationists is to make effective use of advertising media that is economically within the budget of the individual private operator. The Santee Cooper Counties Promotion Commission does an admirable job of promoting the region both within and without South Carolina. It is essential, however, that the commission maintain contact with all the private operators, regardless of size or sophistication of their respective facilities. Past criticisms of PRT indicate that PRT is oriented toward the coast and that it does not give sufficient emphasis to the Santee Cooper Region. This is partially true according to one PRT official, because that's where the people and their tourist dollars go. Time alone, however, will determine whether this assessment is accurate and whether or not PRT's attitude toward Santee Cooper must be modified to give the best direction and management in developing this important tourism asset.

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*Pete Laurie, "Can Santee Survive," **South Carolina Wildlife**, March-April 1976, p. 39

Vacation Travel Behavior and Perceived Benefits of Home State Residents

By Arch G. Woodside, Ellen M. Moore, and Michael J. Etzel

What proportion of home state residents travel within the state versus travel to other states or locations for pleasure and vacation trips? Are the demographic, psychographic, and travel behavior profiles of home state residents visiting in-state destinations substantially different from residents traveling to out-of-state destinations?

Published research studies on tourism market segments have identified nonresident vacation travel segments.[1] However, similar studies apparently are not available on the travel behavior in- and out-of-state of households of a given state.

The gasoline shortages of 1974 and 1979 called attention to the question of tourism of home state residents. How can a state attract its own residents to visit in-state vacation destinations? Who are its residents who travel out-of-state for their vacation? What experiences and benefits are received by in-state and out-of-state travelers among a state's residents? These are the central questions asked by

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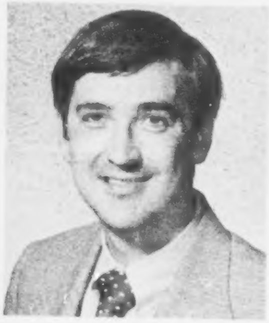
[1] Charles D. Schewe and Roger J. Calatone, "Psychographic Segmentation of Tourists," **Journal of Travel Research** 16 (Winter 1978): 14-20; William R. Darden and William D. Perreault, Jr., "A Multivariate Analysis of Media Exposure and Vacation Behavior with Life Style Covariates," **Journal of Consumer Research** 25 (September 1975): 93-103; Jonathan N. Goodrich, "Benefit Bundle Analysis: An Empirical Study of International Travelers," **Journal of Travel Research 15** (Fall 1977): 6-9; John L. Crompton, "An Assessment of the Image of Mexico as a Vacation Destination and the Influence of Geographical Location upon That Image," **Journal of Travel Research** 17 (Spring 1979): 18-23; John E.J. Graham and Geoffrey Wall, "American Visitors to Canada: A Study in Market Segmentation," **Journal of Travel Research** 16 (Winter 1978): 21-24; and L.J. Crampon, "Hawaii's Visitor Industry," **Journal of Travel Research** 13 (Fall 1974): 24-27.



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several state travel and tourism directors in 1974 and 1979. Similar questions are likely to be raised in future energy crises.

A related question to defining in- versus out-of-state tourism markets among home state residents relates to product offerings. What experiences and benefits does a home state provide to encourage its residents to vacation at home? How should a state's attractions be modified to increase its market share of home state residents? What new attractions are needed, if any, to attract in-state residents? Are home state residents sensitive to advertising for visiting particular in-state attractions more so than out-of-state residents?

To begin to answer these questions, surveys are needed on the travel behavior and demographic-psychographic profiles of home-state residents. The results of one such statewide survey of residents of South Carolina is reported in this article. This study is presented as an example of profiling of the vacation travel behavior of home state residents.

METHODS

A 6-page questionnaire on tourism and travel behavior was mailed in the fall of 1978 to 834 household members of The University of South Carolina's Consumer Panel. At the December 15 cut-off date, a total of 685 usable responses had been returned, representing an 82 percent response rate

The panel's demographic profile generally reflects characteristics of households representative of South Carolina residents with gross annual incomes of over $5,000. The panel is slightly upscale for the state as a whole in terms of education, job type, and income when compared with available Bureau of the Census averages. However, when only urban households with annual incomes in excess of $5,000 are considered, the panel profile resembles that of the population rather closely.[2]

The questionnaire used here was refined by consulting with persons knowledgeable in the tourism industry and through a pretest with approximately 10 households in the Columbia, South Carolina, area. The questionnaire included 4 sections. The first section was composed of 8 questions relating to information about the "most recent pleasure or vacation trip," i.e., primary destination, major purpose of trip number of nights away from home, etc. The second section covered socioeconomic-demographic characteristics and included 7 items. In section three, 6 questions were concerned with travel related behavior. Examples are: "How many vacation or pleasure trips of 2 or more nights away from home did you take during 1978?" "How often did you use a travel agent to arrange either business or pleasure trips during 1978?" The last section consisted of a battery of 50 "product specific"[3] psychographic statements related to experiences and benefits resulting from their most recent pleasure or vacation trip. Respondents selected 1 of 5 possible answers (strongly disagree: 1, to strongly agree: 5). The statements were generated from a survey of the tourism literature, consultations with expert persons in the tourism industry, and previous research.[4]

The psychographic statements used in this study depart from product specific psychographics used in previous studies (e.g., Woodside and Pitts, 1976; Darden and Perreault, 1975). Heretofore, the product specific psychographic statements related to vacation travel were constructed for the purpose of describing the traveler. Here, the psychographic statements were constructed for the purpose of describing the travelers' perceptions of the experiences and benefits received from the trip. The difference is more than semantics.

Psychographics to describe the consumer help to answer the following question, "What are the life styles of the vacation travelers to our attraction (state)?" Psychographics to describe the experiences and benefits the traveler perceives from visiting help to answer a different question: "What benefits does our attraction (state) provide vacation travelers?" Both questions are useful to tourism management.

FINDINGS

Destinations, Purpose of Trip, Nights Away from Home

The primary state destinations for respondents were South Carolina (26.3 percent), Florida (11.8 percent), Georgia (9.6 percent), North Carolina (9.1 percent), Tennessee (5.1 percent), and Virginia (3.6 percent). The figures reflect that the greatest

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[2] John F. Willenborg, James M. Clapper, and Robert E. Pitts, "Generation of Research Data: The Consumer Panel Experience," Working Paper No. 20, Center for Marketing Studies, College of Business Administration, The University of South Carolina, 1975.

[3] William D. Wells, "Psychographics: A Critical Review," **Journal of Marketing Research** 12 (May 1975): 196-213.

[4] Arch G. Woodside and Robert E. Pitts, "Effects of Consumer Life Styles, Demographics, and Travel Activities on Foreign and Domestic Travel Behavior," **Journal of Travel Research** 14 (Winter 1976): 13-15.

TABLE 1. Primary City Destination within South Carolina of South Carolina Respondents of Most Recent Pleasure or Vacation Trip

City Visited	Number	Percentage of Respondents
Myrtle Beach	54	30.0%
Charleston	18	10.0
Hilton Head	10	5.6
Columbia	9	5.0
Pawleys Island	8	4.4
Hunting Island	8	4.4
Greenville	7	3.9
Fripp Island	5	2.8
Other	61	33.9
TOTAL	180	100.0%

proportion of respondents do travel within their home state; however, substantial increases are possible in the tourism market share of home state residents.

The 3 primary city destinations within South Carolina were Myrtle Beach (30 percent), Charleston (10 percent), and Hilton Head (5.6 percent). Details of the top 8 cities visited within South Carolina on the most recent pleasure or vacation trip are provided in Table 1.

Only 2 city destinations within South Carolina — Columbia and Greenville — were not coastal areas. Thus, beach resort areas are most likely to be the major attraction for travel parties within South Carolina.

The proportion of respondents stating their major purpose of trip as rest and relaxation was greatest for those traveling within South Carolina (61 percent). Rest and relaxation was also reported as the major purpose of trip by travel parties visiting North Carolina (49 percent) and Tennessee (37 percent). To visit relatives was reported as the major purpose of trip by parties traveling to Florida (41 percent), Georgia (30 percent), and Virginia (48 percent). Details are provided in Table 2. These findings indicate that the majority of vacation and pleasure travel is most likely to be for rest and relaxation and to visit relatives. More importantly, a substantial majority of parties that travel within their home state report **rest and relaxation** as their **major purpose of trip** with their **destination** most likely at **a local beach resort area.**

The greatest proportion of respondents spending 1 to 3 nights away from home was reported for 4 of the top 6 states visited: South Carolina (60 percent), Georgia (67 percent), North Carolina (79 percent), and Tennessee (54 percent). The most recent pleasure or vacation trip to Florida and Virginia was most often for 4-6 nights duration (50 percent and 56 percent, respectively). The figures reported in Table 3 provide details of the number of nights away from home for the states most often visited. These figures indicate that **the greatest proportion of respondents spend 6 days or fewer** on their vacation trip.

With the exception of Florida visitors, the average number of trips in 1977 and 1978 reported by the travelers ranged from 3.0 to 3.7 to their most recent vacation destination. A greater proportion of travel parties stay longer when visiting Florida (87 percent for 9 nights or fewer), but these travelers average fewer trips (2.5). Thus, travel parties are **most likely to stay fewer than 6 days on their pleasure or vacation trips and to repeat their trips to the same destination.**

Method of Travel and Estimated Cost/Expensiveness of Trip

The **automobile was the main method of travel used** by approximately 88 percent of travel

TABLE 2. Major Purpose of Trip of South Carolina Residents by State Visited in 1978

State Visited	Purpose						Sample Size
	Rest and Relaxation	Outdoor Recreation	Visit Relatives	Visit Historical Sites	Visit Man-Made Amusements	Other	
SC	61%	11%	17%	3%	3%	6%	177
FL	24	5	41	3	19	8	78
GA	23	21	30	6	9	11	66
NC	49	10	23	0	7	12	61
TN	37	3	34	3	14	9	35
VA	12	0	48	16	0	24	25

TABLE 3. Number of Nights away from Home of Most Recent Pleasure or Vacation Trip in 1978

State Visited	Number of Nights away from Home						Sample Size
	1-3	4-6	7-9	10-12	13-15	> 16	
SC	60%	24%	14%	1%	0%	1%	177
FL	21	50	16	6	3	4	80
GA	67	23	8	0	0	2	65
NC	79	16	3	2	0	0	61
TN	54	31	12	3	0	0	35
VA	32	56	4	4	0	4	25

parties to the 6 states most often visited. Travel by plane was reported as the second most often used method (approximately 5 percent).

The medium expenditure for recent pleasure or vacation trips "including transportation, lodging, meals, admissions, gifts, etc." was highest for travel parties to Florida ($353). The lowest medium expenditure was for travel parties visiting North Carolina ($168), followed by South Carolina ($202). Details are provided in Table 4. The lowest medium expenditure for trips to North Carolina may be explained by noting that a greater majority of these travel parties (79 percent) remained for 3 or fewer days. However, all groups represent important economic segments in travel dollars spent per party.

TABLE 4. Estimated Total Cost of Most Recent Pleasure or Vacation Trip by State Visited

State Visited	Average	Standard Deviation	Sample Size
SC	$202	$196	174
FL	353	267	77
GA	211	174	65
NC	168	131	59
TN	282	199	33
VA	267	194	25

The expensiveness of the trip was rated nearly identical for states most often visited. Used were 5 categories ranging from "very inexpensive" (labeled "1") to "very expensive" (labeled "5"). Most respondents stated that the trip was "neither expensive nor inexpensive." Thus, travel parties to the states most often visited are unlikely to view travel as expensive.

A substantially greater percentage of South Carolina residents traveling in their home state rated the trip as inexpensive (44 percent) as compared with the percentage of South Carolina residents traveling to Florida (21 percent) or Georgia (30 percent) who rated their trip as inexpensive.

Probability of Returning, Number of Trips of 2 or More Nights

A 76 percent to 100 percent probability of returning to the same destination was reported most often by the respondents for all the states visited. Home state travelers reported high probabilities of returning to the same destination in South Carolina: 68 percent for travelers within South Carolina predicted a 75 percent or greater probability of returning to the same destination. The travelers to other state destinations were less likely to return to the destinations visited. Thus, **home state travelers are more likely to return to the same destinations than travel parties to other states.** However, probabilities of returning to other state destinations are relatively high, indicating out-of-state destinations are providing substantial competition for within state vacation and pleasure trips.

The number of vacation or pleasure trips taken in 1978 of 2 or more nights was greatest for travelers to North Carolina (41 percent took 8 or more trips). This result supports the finding that most trips to North Carolina were for a shorter duration and were estimated to cost less. Within state visitors took fewer trips in 1978 (28 percent took 8 or more trips) than travelers to other states with the exception of Tennessee (23 percent took 8 or more trips). Therefore, **within state travelers may take fewer trips of 2 or more nights than travel parties visiting other states.**

Demographics

The family income of most respondents ranged from $12,000 to $30,000. The mean family income for respondents of the 6 states most often visited ranged from over $17,000 to over $26,000. A slightly higher percentage of home state travelers had incomes greater than $30,000 (30 percent). A slightly greater proportion of respondents had some college education or a college degree; however, the difference from the proportion of respondents having a high school degree or less was quite small. The responses for states visited most often for age, income, and education are provided in Table 5. Age, marital status, number of children in the household, and occupation were not substantially different between states visited. Thus, **demographic profiles of within versus out-of-state travel parties are unlikely to differ.**

Experiences and Benefits of Pleasure or Vacation Trip

Factor analysis was performed on the 50 psychographic statements to learn if there were any strong underlying dimensions along which the statements would group. The results of the factor analysis utilizing varimax rotation are shown in Table 6.

TABLE 5. Demographics of South Carolina Respondents for Most Recent Pleasure or Vacation Trip of 2 or More Nights in 1978 by State Visited

State Visited	Age			Income				Education			Sample Size*
	40	40-59	>60	<$12,000	$12,001-$29,999	>$30,000	$\bar{X}$	High School Degree or Less	Some College or College Degree	Graduate Work	
SC	28%	56%	16%	15%	55%	30%	20,023	33%	46%	21%	179
FL	24	44	32	22	58	20	19,112	41	41	18	78
GA	32	45	23	19	62	20	21,334	38	34	28	65
NC	23	48	29	16	66	18	21,600	41	46	13	61
TN	20	57	23	37	54	9	17,400	52	36	12	33
VA	36	40	22	13	58	29	26,250	25	42	33	24

*Number of responses to these questions varies slightly by demographics tested.

The factor analysis yielded 11 factors with eigenvalues greater than 1. Only those statements that loaded at least .50 on one factor and less than .20 on other factors were used. Of the original 50 statements, 24 had a .50 or greater loading with 1 of the 11 factors. The 11 factors account for 54.6 percent of the total variance. The following outline identifies the factors of experiences and benefits of vacation or pleasure travel.

Factor A: Educational. This factor reflects an educational vacation or pleasure trip. Such items included were intellectual enrichment, learning experience, cultural value, increased knowledge of different places, and visitation of historical places. Travel parties visiting the state of Tennessee agreed or strongly agreed most often with each statement with the exception of visiting historical places. Visitors to Georgia had a slightly higher percentage of respondents agreeing with this statement (see Table 6). Generally, within state visitors reported less often that vacation or pleasure trips were educational.

Factor B: Affection. This factor consisted of the following items: a nice change of pace; thorough enjoyment; and, given the chance, the desire to take the same kind of vacation again. The percentages of visitors agreeing or strongly agreeing with these statements were not substantially different among states visited.

Factor C: Recommended Place. This was a one-item factor stating that the place was recommended as a vacation site. The greatest percentage of travel parties agreeing with this statement came from among respondents visiting the state of Georgia (36 percent); the lowest percentage was by home state visitors (16 percent).

Factor D: Physical Activities. This factor included 2 items: engaging in activities that required considerable skill, and engaging in sports activities (e.g., golf, tennis, skiing, swimming, and running). A substantially higher percentage of home state visitors (41 percent) agreed with this latter item more often than did visitors to other states (Florida, 29 percent; Georgia, 22 percent; North Carolina, 20 percent; and Tennessee, 9 percent). Little difference was reported for the first item with the exception of Tennessee (6 percent) visitors who reported much less for both items.

Factor E: Refreshing. This factor indicates the vacation was very restful, and left one feeling physically refreshed afterward. A slightly greater percentage of home state travel parties found their vacation restful than did visitors to other states. Similarly, a greater percentage of visitors to North Carolina reported they were more physically refreshed after their vacation or pleasure trip.

Factor F: Unique Experience. This factor consists of the following items: a unique experience, a different experience, and a completely new experience. The proportion of travel parties to the state of

TABLE 6. Major Experiences and Benefits of Vacation or Pleasure Travel of South Carolina Residents by State Visited

Experience or Benefit	Factor Loading[c]	Percentage of Visitors Agreeing or Strongly Agreeing with Statement[a]				
		SC	FL	GA	NC	TN
Factor A: Educational (15.4%)[b]						
1. This vacation was intellectually enriching	.63	25%	39%	38%	34%	41%
2. This vacation was a learning experience	.70	22	25	35	23	43
3. This vacation had a lot of cultural value	.82	15	27	33	16	49
4. On this vacation I increased my knowledge of different places	.76	19	43	38	34	46
5. A large part of this vacation was spent visiting historical places	.70	9	20	25	7	23
Factor B: Affection (9.4%)						
6. This vacation was a nice change of pace	.60	83	84	79	79	89
7. I thoroughly enjoyed this vacation	.74	86	88	88	80	89
8. Given the chance, I would take the same kind of vacation again	.81	86	80	79	79	86
Factor C: Recommended Place (5.4%)						
9. This place was recommended to me as a vacation site	.77	16	25	36	25	34
Factor D: Physical Activities (4.1%)						
10. On this vacation, I engaged in activities that require considerable skill	.67	11	15	8	10	6
11. I engaged in sports activities (golf, tennis, skiing, swimming, running, etc.) on this vacation	.51	41	29	22	20	9
Factor E: Refreshing (3.9%)						
12. This vacation was very restful	.78	75	62	59	73	74
13. I felt physically refreshed following this vacation	.56	68	54	56	72	71
Factor F: Unique Experience (3.2%)						
14. This vacation was a unique experience for me	.57	19	38	20	22	52
15. Most people would describe this vacation as different	.55	17	26	32	33	43
16. This vacation was a completely new experience for me	.68	7	23	16	15	37
Factor G: Rewarding (3.0%)						
17. I "owed" this vacation to my family	.77	26	35	27	26	18
18. I "owed" this vacation to myself	.73	33	51	31	34	49
Factor H: Family Togetherness (2.8%)						
19. On this vacation, I fulfilled my responsibilities to my family	.51	61	67	60	56	52
20. I spent more time with my immediate family on this vacation than I do when we're at home	.63	55	57	44	62	50
Factor I: Self-Confidence (2.7%)						
21. The activities on this vacation built self-confidence	.54	23	16	34	15	26
Factor J: Unplanned (2.4%)						
22. Rather than carefully planning this vacation, I just let things happen	.64	58	38	48	61	43
Factor K: Unwinding (2.3%)						
23. The best part of this vacation was getting away from the monotony of everyday life	.50	73	67	71	85	71
24. I felt emotionally refreshed following this vacation	.68	75	78	69	64	83

[a] Number of responses to these statements for South Carolina, Florida, Georgia, North Carolina, and Tennessee are approximately (due to variation) 176, 79, 64, 62, and 35, respectively.

[b] Percentage of variance in the data accounted for by the total varimax rotated factor.

[c] Loading of that statement on the factor.

Tennessee agreed or strongly agreed more often with each of these statements compared with the visitors of the other states. Overall, the percentage of home state travel parties agreeing with each statement was much less, indicating their travel experiences were not as unique as travel experiences by visitors to other states.

Factor G: Rewarding. Included in this factor were 2 items: "I 'owed' this vacation to my family," and "I 'owed' this vacation to myself." The proportion of travel parties agreeing most often with each item came from among visitors to Florida. This finding may be due to the expense of the greater distance traveled and the cost of participating in vacation activities.

Factor H: Family Togetherness. This factor reflects fulfillment of responsibilities to family, and the expenditure of more time with immediate family on vacation than when at home. A greater proportion of visitors to Florida agreed most often with the first item. The percentage of respondents to the second item was much less for visitors to the state of Georgia. Most other responses were relatively similar.

Factor I: Self-Confidence. The one item indicated in this factor was that the vacation activities built self-confidence. The greatest percentage of respondents agreeing with this statement were visitors to Georgia. The proportion of travel parties visiting North Carolina and Florida agreed less often that the vacation activities built self-confidence.

Factor J: Unplanned. This factor reflects the view that rather than do careful planning, the traveler just let things happen. The proportion of home state visitors and visitors to North Carolina agreed most often with this item. A substantially smaller percentage of visitors to Florida agreed that they just let things happen on their vacation.

Factor K: Unwinding. This last factor consists of two items: getting away from the monotony of everyday life, and feeling emotionally refreshed following the vacation. A greater proportion of respondents visiting North Carolina agreed most often with the first statement. The percentage of respondents visiting Tennessee agreed most often with the second statement. The percentage of visitors agreeing with these statements among other states most often visited were not substantially different.

These factors may be identified as being of varying importance to tourists in their vacation and pleasure travel experiences. The general areas of benefits or considerations seemingly important to the respondents sampled may be useful for designing advertising appeals for attracting home state residents to visit in-state destinations.

CONCLUSIONS

Research on the vacation travel behavior of home state residents provides important insights and management implications for state travel directors. Local chambers of commerce and managers of specific resorts and attractions may find such research useful in planning vacation "packages" to attract home state residents.

For South Carolina, the following profile describes the vacation travel behavior of home state residents traveling in the state.

Demographics: Middle-aged couple, who have attended some college, traveling with children. Family income is $12,000 to $30,000.

Destination: Myrtle Beach or Charleston.

Purpose of trip: Rest and relaxation.

Number of nights away on trip: 3 or 4.

Total cost of trip: $150 to $400.

Probability of repeating visit: Very high.

Major experience or benefit received: Personal enjoyment and rest plus family togetherness.

This profile suggests that a low-cost vacation "package" of 3 to 5 nights at the coast for a middle-aged couple traveling with children would be a successful product. The advertising of this product should stress personal benefits first, and family togetherness second. Educational benefits and unique experiences should not be used in promoting this product.

Based on the profile and product described, appeals to "see South Carolina first" or "South Carolina — you couldn't have seen all of me" would likely be unsuccessful. Home state residents are interested in more personal benefits than those implied by such appeals. Home state residents traveling in South Carolina are seeking refreshment, rest, and an easy-going change-of-pace. "Relax — You're at a South Carolina Beach" is one appeal likely to be effective in influencing South Carolina residents.

Research on home resident travel behavior should help direct tourism effort (dollars) to where returns will be high. To achieve impact, a major part of a state's tourism expenditures needs to be used to promote the destination providing the experiences and benefits sought by that state's market. Thus a market segmenting approach for attracting home state residents is advocated.

Research should be conducted yearly on representative samples of home state residents to measure shifts in travel behavior and travel profiles. Developing a tourism marketing program to attract home state travelers without such research is similar to flying a plane in the dark without radar.

A Survey of Hospitality Industry Education in South Carolina*

By Melvin N. Barrington, Jr.

INTRODUCTION

Near the end of the last decade, post-secondary education in South Carolina recognized the need to develop programs for this state's second largest industry — hospitality and tourism. In 1968, The University of South Carolina implemented an associate degree in Hotel, Restaurant, and Institutional Administration in its College of General Studies. Shortly thereafter, similar degree offerings were established by the Technical Education Centers in Conway, Beaufort, and Greenville. A program at Baptist College was initiated in 1966, and a degree in Recreation and Park Administration became active at Clemson in 1972.

The state of South Carolina now has four associate degree programs and three baccalaureate degree programs that deal directly with the hospitality and tourism industry. The two-year programs are offered by Beaufort Technical College, Greenville Technical College, Horry-Georgetown Technical College in Conway, and the College of General Studies at The University of South Carolina. The four-year programs are found at Baptist College of Charleston, Clemson University, and The University of South Carolina. The new program at USC is currently under review by the Commission on Higher Education and, if approved, will be implemented in the 1980-'81 academic year.

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SUMMARY OF THE PROGRAMS

Beaufort Technical College. Beaufort TEC offers an Associate Degree in Hotel/Motel Restaurant Management. Here the students receive a broad general background in the art of hospitality management, primarily because of that school's close proximity to Hilton Head Island. As with all hospitality programs in the TEC system, this degree requires 96 quarter hours for graduation. It also offers an ample selection of electives that may be substituted into the suggested program.

Greenville Technical College. Greenville TEC awards an Associate in Business Degree with a major in Food Service Management. The curriculum is designed to prepare the student for a career with one of the largest employers in the Appalachian region of South Carolina. This program also owes its success to an extremely active Advisory Committee made up of 18 industry representatives.

Horry-Georgetown Technical College. Horry-Georgetown TEC in Conway offers an Associate Degree in Hotel-Motel-Restaurant Management in an ideal location — only a few miles from Myrtle Beach's Grand Strand. This popular program prepares graduates to hold positions as managers or supervisors in all aspects of the hospitality industry. Their modern, well-equipped food laboratory enables the students to gain actual experience in food preparation and service.

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*Information for this article was acquired from the various school catalogs and from personal interviews with the respective program directors. Please note that only those programs offering A.S. or B.S. Degrees are included here.

The University of South Carolina. The Associate of Science Degree program at The University of South Carolina is entitled Institutional Administration. This program provides education for middle management positions in the various phases of the hospitality industry. It requires 66 semester hours, including a summer practicum that enables students to gain practical knowledge in their major area of concentration.

Baptist College. Baptist College offers a Bachelor of Science Degree in Business Administration with a major in Hotel and Restaurant Management. This emerging program allows the students in Charleston to concentrate in courses that will insure job success throughout this popular center of tourism.

Clemson University. Clemson University offers both Bachelor's and Master's programs in Recreation and Park Administration. These degrees are significantly different from the others described in this article in that they are designed to serve the public sector or leisure-service agencies, such as park management.

The University of South Carolina. The Bachelor of Science Degree in Hotel, Restaurant, and Tourism Administration in USC's College of General Studies has been approved by the various USC faculty committees and is awaiting final Commission on Higher Education approval. This new program will allow students to enter as freshmen or to transfer as juniors from the various associate degree programs throughout the state and the nation.

Each of the above schools basically divides its curriculum into four broad areas: major area of concentration, business or related area, general education, and electives. The table below lists an array of possible courses from the major area. An "X" indicates that the course is required, and a "Z" that the course may be selected as an elective. Because of the complexity involved in evaluating the various courses, this author tried to select broad subject headings that best describe the content of each course. Following the table is a brief general description or a probable content of the courses listed.

BROAD COURSE DESCRIPTIONS

Introduction or Survey — A survey of the broad spectrum of the hospitality industry. This includes history, growth, development, and future opportunities in hotels, motels, restaurants, clubs, resorts, and institutions.

Basic Food Production — A survey of the basics of food production from storeroom to consumer. This includes various techniques of storage, preparation, merchandising, and menu planning, as well as the many aspects of service.

Advanced Foods — A continuation of Basic Foods with actual service of foods to guests.

Other Food Production — A continuation of the first two food courses, plus advanced catering and gourmet preparation and service.

Nutrition — The utilization of food by the body; and menu planning and food production for hotels, restaurants, and institutions in relation to regular and modified diets.

Food Science/Sanitation Microbiology — A study of the characteristics and importance of microorganisms in the food service industry. Includes analysis of the chemical and physical compositions of food.

Menu Planning — A study of the principles and techniques involved in menu planning. This includes applying basic nutritional, as well as cost, factors in the determination of menu item presentation.

Food and Beverage Purchasing — A study of the major foods, beverages, and supplies purchased for the hospitality industry. This includes grading, specification writing, cost control, weight and measures, ordering, receiving, storage, and issuing.

Food and Beverage Service — A survey of the various types of service, domestic and foreign, fast food to gourmet; also, etiquette; and religious, legal, and other constraints dealing with food and alcoholic beverages.

Food and Beverage Cost Control — A study of the principles and procedures of effective food, beverage, and labor cost control; also, how to establish standards and budgets for fixed and variable costs within a hospitality operation.

Front Office Procedures — A survey of the knowledge and skill of duties involved in registering, accounting for, and checking out guests. Reservation procedures, cashier's duties, and the night audit are also covered.

Front Office Machines — A refinement of the Front Office Procedures course, with instruction in the use of the various machines in hotels and motels — from mechanical through computers.

TABLE. Courses Required within the Major

X = Required

Z = Elective

	Food Group										Lodging Group				Overall Group								
SCHOOLS OFFERING DEGREES IN THE HOSPITALITY INDUSTRY **ASSOCIATE DEGREE PROGRAMS**	Introduction or Survey	Basic Food Production	Advanced Foods	Other Food Production	Nutrition	Food Science/Sanitation Microbiology	Menu Planning	Food and Beverage Purchasing	Food and Beverage Service	Food and Beverage Cost Control	Front Office Procedures	Front Office Machines	Housekeeping	Laws of Innkeeping	Hospitality Accounting	Hospitality Management or Supervision	Advertising or Sales Promotion	Layout and Design Engineering	Travel or Tourism	Current Issues Seminar	Practicum Work Experience	Other Courses in Major	
Beaufort TEC	X	X	X	Z			Z	X	X	X	X	X			X		X	X				Z	
Greenville TEC		X	X	X	X	X		X					X			X		X				Z	
Horry-Georgetown TEC	X	X	X	X		X			X	X	X			X	X	X	X	X	X		Z		
The University of South Carolina	X	X			X			Z			Z			X		X	X	X			X		
BACCALAUREATE DEGREE PROGRAMS																							
Baptist College		X						X								Z		Z			X		
Clemson University	X															X		X		X		X	Note: This program has many courses not listed above.
*The University of South Carolina			X			X									X	X	X	X	X	X	X		

*Proposed program — tentative date of implementation: 1980-'81.

Housekeeping — An introduction to the fundamentals of housekeeping management. Usually produced in cooperation with the National Housekeeping Association, this course stresses the employment training, record keeping, and executive responsibilities of the housekeeping department.

Laws of Innkeeping — An introduction for the future manager to the legal responsibilities of innkeeping. Covers development of foresight in dealing with guests, employees, and the courts.

Hospitality Accounting — An application of general accounting principles to the management of hotels and restaurants, especially in cost control, financial analysis, inventories, taxes, and statistical analysis.

Hospitality Management or Supervision — An application of the functions, procedures, and techniques of good management to food, beverage, and lodging operations for those students aspiring to be supervisors and/or managers.

Advertising or Sales Promotion — A survey of the segment of marketing that deals with all internal and external selling and public relations — from media selection to personal guest contact.

Layout and Design Engineering — Instruction in correct layout techniques in hotels, motels, and food service establishments; the exploration and evaluation of various designs; the selection and composition of equipment specifications; and the utilization of proper maintenance methods.

Travel or Tourism — A survey of the economic and social impact of tourism as it applies to the hospitality industry in both domestic and foreign markets. Includes consumer groups, modes of travel, tour packaging, and services.

Current Issues Seminar — A study of selected topics pertaining to the hospitality industry, with special emphasis on guest speakers and field trips.

Practicum Work Experience -- Supervised, full-time work experience in various phases of the student's major area of emphasis. This course is carefully coordinated and must meet the approval of the advisor.

CONCLUSIONS

This author feels that higher education in South Carolina will meet its obligation to provide education for the hospitality industry in this state in the 1980's. Not only are adequate numbers of institutions of higher learning providing a quality education, but these schools also are located in ideal, well-dispersed geographical locations that enable them to serve both students and industry. Furthermore, the articulation agreements between the associate and baccalaureate degree programs will allow students the choice of entering the work force after two years of college or of continuing their education to earn a bachelor's, or even a master's, degree.

Geographic Analysis: Implications for Tourism

By Lisle S. Mitchell

Tourism geographers investigate natural and man-made phenomena, conditions, factors, and processes that explain the similarities of, and the differences among, tourism facilities, or the presence or absence of such facilities from place to place on the earth's surface. Geographers, in their quest for knowledge pertaining to tourism, examine the same factors and utilize the same data and information sources as do representatives of all of the social sciences. If each discipline, therefore, looks at identical occurrences and variables, what then does each contribute to the study of tourism? The answer is that each academic specialty contributes its own bias and perspective. The viewpoint of the geographer consists of two parts: location-distribution and linkages.

LOCATION-DISTRIBUTION

The concept of location-distribution may be subdivided into two parts: location and distribution. Location is concerned with the placement of a single tourist entity at some specific spot on the landscape, and all the related physical site characteristics, such as rock type, soil type, slope, drainage, water supply, climate, and vegetation type. Distribution is concerned with the spatial pattern of a series of tourism establishments in some general area and their spatial interrelationships. For example, an individual wishing to purchase land to build a campground is making a locational decision when he considers the site characteristics of a particular parcel of land. On the other hand, he is making a distributional decision when he compares the location of a piece of land with the location of competitors and considers the positioning, density, and quality of the transportation network associated with the site.

Although tourism location-distribution decisions are of foremost importance to geographers, it is understood that these decisions are made within the context of purpose and structure. Tourism establishments are developed on a rational basis, i.e., to earn profit on investment, to provide a particular recreation-tourism experience, and/or to provide employment opportunities. The structure of tourism facilities follows from the specific purpose or purposes. Structure includes different classes of the same tourism entity. For example, motels can

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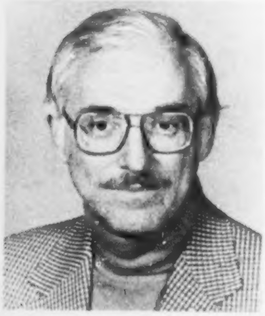

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be classified on the basis of the number of rooms or beds, on the costs of rooms, or on the quantity and quality of other services provided. Structure may also include different classes of a wide variety of tourism facilities and related activities. Therefore, tourism location-distribution decisions are not based only on the specifics of the site and situational relationships but also on the individual purposes and the associated structure of a particular tourism establishment.

LINKAGES

Linkage is a concept that encompasses the complementarity that exists between places of demand and places of supply. The study of tourism is the study of linkages because places of demand and supply, by definition, cannot be identical as movement or travel between places is implied. Individuals who demand (i.e., want or desire) tourism experience usually reside in or near major metropolitan regions while places of supply of tourism facilities usually are distributed in a pattern that is peripheral to city centers. Linkage then includes consumption, transportation and communications networks, tourism regions, and travel tendencies.

Consumption of a tourism activity is a manifestation of a latent desire that is satisfied through an overt action. Consumption can be measured by attendance rates. Before consumption can take place, however, two networks are necessary. The first is communication. Such a network must exist if the latent tourist is to be made aware of available leisure opportunities. The communications mode may be as simple as person-to-person interaction or as sophisticated as the latest electronic innovation. The second network is transportation. The existence of a means of travel between the place of residence and the tourism site is essential if participation in a tourism activity is to occur.

Communication, transportation, and consumption result in movement patterns that can be mapped. Travel routes from place of demand to place of supply delineate an area known as a tourism region. A detailed investigation of such a region can provide an accurate representation of its size and shape. Information pertaining to the travel tendencies of tourists also can be gathered. For example, major concentrations of tourist origins can be demarcated; the minimum, mean, and maximum distance and time travelled can be obtained; and the principal access routes can be identified.

OBJECTIVES

There are three objectives for the remainder of this article. The first is to consider why tourism establishments are located or distributed in particular places or patterns. The second is to investigate three elements of linkage. The third, and last, is to determine some implications of geographic analysis for tourism managers, decision makers, and planners.

LOCATION-DISTRIBUTION

It has been determined that tourism facilities are located close to users or resources, or at intermediate positions between users and resources. User oriented establishments are concentrated in major population centers. Since many attractions with huge capital and operating costs must generate large sales volumes to cover their overhead and to return a profit, they construct their facilities as close to users as possible. Resource oriented establishments, on the other hand, are located on or near unique physical resources such as bodies of water, scenic vistas, and/or mountains or forests. These businesses utilize physical resources as magnets to attract consumers. Those tourism entities with an intermediate orientation are concentrated along transportation routes between population centers and natural resources. This type of concern, being neither user nor resource oriented, takes advantage of the tourist's need to travel and provides short-term, touring goods and services.

General Distribution

The three types of orientation to the general distribution patterns of the tourism industry mentioned above are discussed in more detail below. Specific examples of each are given in the following section of this article.

User Orientation. Hotels, motels, restaurants, service stations, miniature golf courses, movie theaters, arcades, theme parks, and skate board parks are examples of tourism facilities that tend to locate in urban areas. A map of South Carolina would reveal a dense concentration of these attractions in such population centers as Columbia, Charleston, Greenville, and Spartanburg.

Resource Orientation. Many of the types of concerns listed above may also have a resource orientation (i.e., be near physical amenities). However, these tourism entities tend to use large amounts of land, and include space extensive activities such as golf courses, tennis courts, and swimming areas. In addition, the distribution of such facilities is agglomerated or clustered. Myrtle Beach, Hilton Head Island, and Lakes Marion and Moultrie are examples of resource oriented attractions.

Intermediate Orientation. While all of the establishments having user and/or resource orientation may also have intermediate orientation, this latter group is made up primarily of motels, restaurants, service stations, specialty shops, and campgrounds. The concentration of traffic along transportation routes and at major intersections enables these firms to provide goods and services to the traveler. A map of this distribution would reveal a series of routes (i.e., lines) connecting population centers with tourist centers, and a random number of nodes (i.e., intersections and interchanges) along the lines. Any service complex along any interstate highway or heavily travelled Federal or state highway is an example of an intermediate location.

Specific Examples

User Orientation. A water slide is a capital intensive operation that invests a relatively large sum of money in a small piece of land and a technically simple piece of equipment. The operating costs are relatively low as a limited number of unskilled individuals are needed to operate the facility. Since this type of attraction needs to be highly visible, it should locate in or near a permanent or temporary (i.e., seasonal) population concentration and (1) at or near a large volume traffic intersection; (2) adjacent to a major traffic generator such as a beach, an arcade, or a shopping center; or (3) on a route of substantial pedestrian traffic.

Resource Orientation. Location criteria for fishing concerns vary considerably from place to place, but, generally, such establishments should locate (1) on or near a relatively large body of water, (2) in a well protected harbor or landing area, (3) in an area having easy (i.e., close and direct) access to open waters and productive fishing areas, (4) adjacent to or near a major transportation artery, and (5) in an area having easy access to entry and/or exit routes. The need for the water body is obvious, but excellent physical site characteristics as well as good access to the fishing areas and to the potential consumer market are also important. Fishing establishments may deviate greatly in terms of investment costs, intensity of development, scale of operation, diversity of facilities, and quality of experiences, but if a number of the location standards listed above are not met, then the probability of success is limited.

Intermediate Orientation. A transient campground provides a good illustration of this type of orientation. Any facility that attempts to provide goods and/or services to a travelling public needs to be highly visible and attractive. Such an entity, therefore, should (1) be on or near a high volume thoroughfare, (2) be visible from a distance such as a valley bottom or hill top, (3) have unusual or beautiful scenery, (4) have simple and direct exit and entrance ways to the highway, and (5) be close to related tourist needs.

LINKAGES

Complementarity between places of demand and supply must exist before linkages are formed. Places are complementary when they fulfill each other's desires. Suppliers of tourism services are happy when their facilities are utilized, and demanders of tourist experiences are pleased when their desires for services are satisfied. When this occurs, linkages are created in the form of consumption patterns, communications and transportation networks, tourism regions, and travel tendencies.

Consumption Patterns

Consumption patterns as measured by rates of attendance can provide useful insights into spatial linkages. It has been determined that attendance at tourist sites is positively correlated with distance from tourist's point of origin, distance from other attractions, and the quantity and quality of facilities and activities provided.

It has been substantiated that participation rates decrease as distances from tourist sites increase. This relationship is not always uniform and it does vary widely from tourist type to tourist type, but, in general, individuals and/or groups who consume the majority of a particular good or service reside relatively close to the site.

Attendance is also higher at those locations that are convenient to other tourist attractions. The closer an establishment is to other tourism units, the more likely it is to have high use rates, while low rates of participation are associated with tourism firms isolated from other establishments.

Finally, attendance is a function of the number and quality of tourism facilities and activities available. As suggested by the relationship between attendance and the distance to other attractions, the total volume of tourist opportunities is extremely important. Number of experiences, however, is not the only factor, as the quality of facilities must be considered, too.

Tourism Regions

A tourism region is the area surrounding a tourism establishment, including the residences or points of origin of tourists. While the methodology for defining and demarcating the boundaries of such regions is not standardized, it is possible to map the spatial relationship between a single place of supply and a multitude of places of demand. A hinterland map could be used to delineate the shape and to calculate the size of the region. From such a map, areas with a concentration of participants and those containing relatively few active tourists can be identified. In addition, the communications and transportation networks servicing the region can be determined.

Travel Tendencies

Data collected to construct maps of tourism regions may also be used to denote tourist travel tendencies. Methods are available to calculate the minimum, maximum, and average distances travelled to a tourism center. Since it is known that consumption decreases as distance from a tourism site increases, an estimate of the shortest, longest, and average distances travelled could prove to be extremely valuable. It is also possible to measure the variance in the number of tourists from certain distance zones and to predict their travel time and travel routes.

IMPLICATIONS

Geographic or spatial analysis, like the analysis of any science, can be highly theoretical and impractical. However, the geographic concepts and research findings outlined in this article have direct implications for, and application to, problems faced by managers, decision makers, and planners of tourism facilities. From the analysis of consumption patterns and travel tendencies, three principles can be inferred. The first is that a tourism attraction should be located as close to the desired market as possible. Potential consumers, in general, attempt to minimize travel distance, cost, and time. Thus, to maximize returns, it is important to position tourist establishments in close proximity to users. Carowinds is a good example of a user oriented facility. In those instances in which a site available for tourism development is not located near a metropolitan center, attempts need to be made to modify the consumer's perception of travel barriers. That is, travel to and from a site can be packaged as a part of the tourist experience, the scenic quality of the travel routes can be advertised, and the value of on-site experiences can be magnified.

The second principle is that any tourism firm that cannot be user oriented should be located in close proximity to other attractions. Agglomeration with closely related tourism facilities and activities is an important advantage. Tourists, and in particular touring families, look for variety and diversity. Family members are in various stages in the life cycle, and it is unlikely that any one, or even a few, tourism opportunities will satisfy their various demands. The concentration of tourism concerns almost always insures a wide range of alternative activities and thus increases the possibility of attracting a profitable number of visitors. While Myrtle Beach and Hilton Head Island do have fantastic natural resource advantages, neither became an outstanding financial success until a critical mass of complementary companies was assembled in a relatively small area.

The third principle that can be inferred from the analysis of consumption patterns and travel tendencies is that whenever a location is neither user oriented, resource oriented, nor agglomerated with other facilities, its chances of profitable operation may be enhanced if attractivity can be increased. This can be accomplished through advertising. "South of the Border" on U.S. Interstate 95 is a classic example of an intermediate location's being improved by taking advantage of a unique location (i.e., south of the North Carolina-South Carolina boundary) and a special motif, and by using extensive billboard advertising. Another means of improving the attractiveness of a site is to increase the number of facilities and activities provided. As noted earlier, the more diverse an attraction becomes, the better its chances of success. Improving the quality of goods and services offered is a third method of increasing attractivity. Modern, clean, well-kept, well-lighted facilities and competent, friendly personnel are major factors in keeping abreast of the travelling public's wants and needs.

An evaluation of tourism region maps yields findings about market size and consumer characteristics that provide some guidelines to advertising. First, individuals and/or groups who actively participate in tourist experiences tend to reside in urban and suburban settlements. It is obvious, therefore, that advertising campaigns should be focused on a few significant places. In addition, it is possible to infer some of the specific socioeconomic characteristics of tourists by correlating their residential patterns with Census Bureau Information. These associations can be used to segment the tourist populations into smaller groups. Those groups with desirable characteristics can then be isolated and advertisements devised specifically for them. In this way, it is possible to make more efficient use of limited advertising funds.

Second, while the majority of advertising efforts should be concentrated in the principal market areas, some funds should probably be expended along the primary access routes. In many cases, tourist plans are indefinite in that they have no specific stopping place in mind. In general, such individuals can be easily influenced by random ads, and the suggestions from a billboard, sign, flyer, circular, or other piece of information can help the tourist to make a final decision.

CONCLUSIONS

Geographic or spatial analysis of user-resource-intermediate orientation, consumption patterns, tourism regions, and travel tendencies can be of value to managers, decision makers, and planners of tourism developments. The principles and guidelines discussed in this article are only a few of the possible contributions that could be made. This is especially true when it is taken into account that each tourism unit and cluster has its own unique location-distribution and linkage problems.

In a recent issue of the **Annals of Tourism Research,** the following list of tourism complex attraction factors was presented:

1. natural beauty and climate
2. cultural and social characteristics
3. accessibility of region
4. attitude toward tourists
5. infrastructure
6. price levels
7. sport, recreation, and education facilities
8. shopping and commercial facilities.*

It is important to note that in this list compiled by nongeographers, access and distance to population centers is ranked third. Natural resources as an attraction factor is ranked first, and the quality of the human landscape and personality are rated second and fourth. It may be concluded, therefore, as has been indicated throughout this article that the existence and maintenance of successful tourist centers is a function of the spatial relationships that exist between location, natural resources, and man-created facilities.

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*J.R. Brent Ritchie and Michel Zins, "Culture As a Determinant of the Attractiveness of a Tourism Region," **Annals of Tourism Research** 11 (April/June 1978):261

Division of Research Announces Latest Publication

OCCASIONAL STUDY #13

COMMERCIAL BANKING TRENDS, 1950-1979: A Survey of United States and South Carolina Developments

By Dr. Olin S. Pugh

The best indicator of the likely trends in banking over the coming decade is found in the evolving changes of the system over the past 20 years or so. The events since the mid-1960's are particularly relevant to the immediate future of the industry. Many of the changes that have occurred in recent years will be continued throughout the coming decade. To some degree, then, the industry will continue to be faced with evolutionary change rather than revolutionary change.

The overall approach and content of this monograph provide continuity in portraying the fundamental changes in commercial bank assets and liabilities over an extended period. National and state developments are discussed throughout the study.

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By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

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HOW TO LOSE $100,000 AND OTHER VALUABLE ADVICE

by Royal Little
Little, Brown & Co.
34 Beacon St.
Boston, Mass. 02106
1979, 334 pp., $12.95

Memoirs of Roy Little, one of the outstanding entrepreneurs of this century. Instead of dwelling on his successes, such as the founding of Textron, Little reveals his business mistakes and failures, and what is to be learned from them. Thus the beginner can profit from expert advice delivered in a highly enjoyable manner.

ENERGY IN AMERICA'S FUTURE: THE CHOICES BEFORE US

by Sam H. Schurr
Johns Hopkins University Press
Baltimore, MD 21218
1979, 555 pp., $30.00
pap. $10.95

This book is based on a 3-year study conducted by the National Energy Strategies Project. It concludes that short-term dependence on foreign petroleum is inescapable, but holds out hope for future energy independence through diversification of energy sources, conservation, and development of synthetic fuels.

DEVELOPING AND ADMINISTERING AN INDUSTRIAL TRAINING PROGRAM

by John R. Dowling and Robert P. Drolet
CBI Publishing Co.
51 Sleeper St.
Boston, Mass. 02210
1979, 167 pp., $8.95 pap.

The authors provide detailed information on preparing and implementing employee training programs, both for production and administrative workers. They also include a discussion of testing methods and a listing of Federal training standards from OSHA.

HOW TO READ A FINANCIAL REPORT

by John A. Tracy
John Wiley & Sons, Inc.
605 Third Ave.
New York, NY 10016
1979, 160 pp., $12.95

Tracy explains the three basic financial reports — the balance sheet, the income statement, and the cash flow statement — in terms the layman can understand. He places his emphasis on the cash flow concept in examining the company's total financial position.

A SURVIVAL KIT FOR TAXPAYERS

by Robert S. Holzman
Macmillan Co.
866 Third Ave.
New York, NY 10022
1979, 149 pp., $6.95

The author explains how to minimize the chances of having a tax return audited by the Internal Revenue Service and what the consequences are of such an audit. He discusses the numerous pitfalls of preparing tax returns and gives 10 rules to follow to avoid problems.

HOW TO EVALUATE PEOPLE IN BUSINESS: THE TRACK-RECORD METHOD OF MAKING CORRECT JUDGMENTS

by Charles A. Dailey and Ann M. Madsen
McGraw-Hill
1221 Ave. of the Americas
New York, NY 10020
1979, 225 pp., $12.95

These authors present an alternative approach to the more traditional employee selection and promotion procedures. The emphasis here is on a dynamic judging system based on the employee's working account.

* * *

Readers are invited to submit titles of books that they wish to call to the attention of others.

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business and economic review

STATISTICAL INDICATORS OF SOUTH CAROLINA BUSINESS

ITEMS	October 1979	October 1978	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 3,103	$ 2,865	+ 8.3
Demand	1,700	1,608	+ 5.7
Time	1,395	1,249	+11.7
Loans, Member Banks ($ millions)	2,120	2,037	+ 4.1
Savings in Savings and Loan Associations ($ millions)	5,053	4,663	+ 8.4
Sales and Use Tax Collections ($ thousands)	56,211.6	50,395.3	+11.5
Labor Market			
Civilian Labor Force (thousands)	1,338.8	1,311.2	+ 2.1
Employment	1,275.9	1,239.2	+ 3.0
Rate of Unemployment (percentage)	4.7	5.5	-14.5
Nonfarm Wage and Salary Employment (in thousands)	1,167.9	1,142.3	+ 2.2
Manufacturing	390.9	390.8	a
Contract Construction	63.6	67.7	- 6.0
Transportation and Public Utilities	52.4	50.6	+ 3.6
Wholesale and Retail Trade	223.8	214.4	+ 4.4
Finance, Insurance, and Real Estate	46.8	44.5	+ 5.2
Services, Mining, and Miscellaneous	162.7	150.0	+ 8.5
Government	227.7	224.3	+ 1.5
Average Hourly Earnings, All Manufacturing (in dollars)	$ 5.27	$ 4.80	+ 9.8
Initial Unemployment Claims Filed in South Carolina	22,248	17,644	+26.1
Placements by South Carolina Employment Offices (nonagricultural)	7,687	6,961	+10.4
Indexes of Prices Received by Farmers (1966-68=100)			
All Farm Products	202	196	+ 3.1
All Crops	218	209	+ 4.3
Livestock and Products	200	188	+ 6.4
S.C. Parity Ratio	79	88	-10.2
New Motor Vehicle Registrations			
Cars	11,179	10,855	+ 3.0
Trucks	3,367	3,266	+ 3.1

	October 1979	October 1978	First 10 Months		
			1979	1978	Percentage Change
Valuation of Building Permits Issued ($ thousands)					
Total for all S.C. Counties	$222,482	$139,471	$1,599,211	$1,186,867	+34.7
Available County Data					
Aiken	7,194	1,954	51,701	38,905	+32.9
Berkeley	3,624	8,165	41,945	60,072	-30.2
Charleston	15,785	21,263	173,923	118,120	+47.2
Dorchester	4,065	1,111	42,647	27,310	+56.2
Lexington	4,401	5,378	72,967	58,927	+23.8
Richland	10,848	16,299	114,670	80,643	+42.2
Greenville	37,938	14,511	183,756	112,732	+63.0
Pickens	3,485	3,890	32,087	29,726	+ 7.9
Spartanburg	14,366	7,475	127,334	75,733	+68.1

[a] Less than one-half of 1 percent.

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business and economic review

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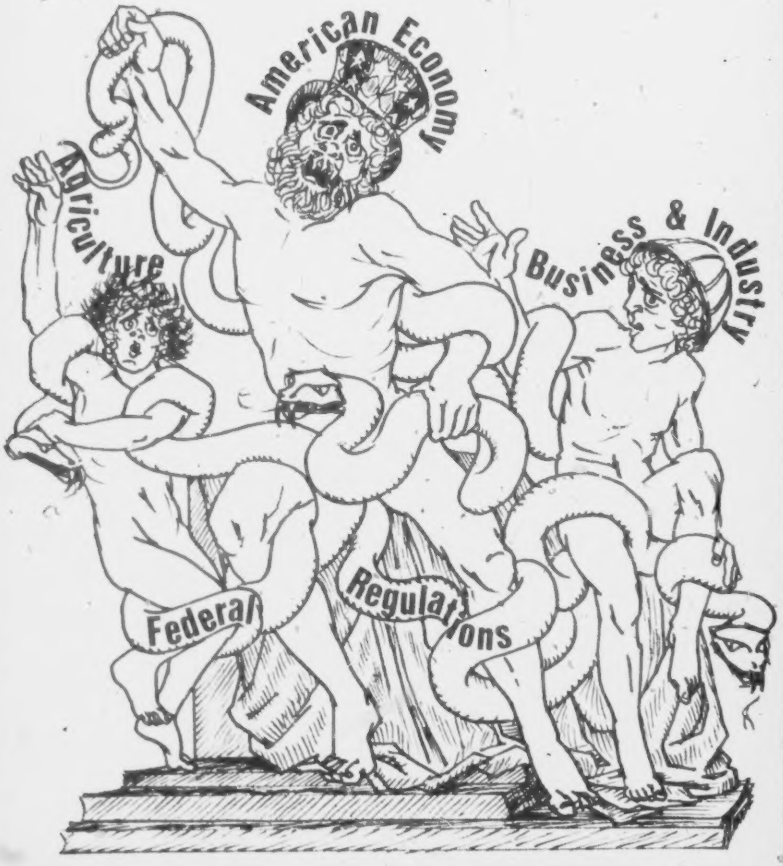
American Style 1980



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May-June 1980

"Recent Trends in Federal Regulation of Business"
by Ronald P. Wilder

"Do Figures Speak for Themselves? Statistical Evidence in Discrimination Cases"
by Edgar P. Hickman

"The Employer and Employment Laws"
by James J. Baldwin

"Bottom Lines"
by James B. Edwards

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"Liberty Life Celebrates 75 Years"

"The I.R.S. and the Marriage-Go-Round: A Review of the Marital Status Penalty Tax and Proposed Corrective Legislation"
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3 **Recent Trends in Federal Regulation of Business.** The purpose of government regulation of health, safety and environmental quality is to improve the quality of life. The results of such regulation, however, are often massive regulatory costs, declining productivity, and an increase in the inflation rate. Dr. Ronald P. Wilder discusses recent trends in Federal regulation of business and gives his opinion of what the prospects are for at least some deregulation.

9 **Do Figures Speak for Themselves? Statistical Evidence in Discrimination Cases.** Statistics provide important evidence in legal proceedings involving questions of discrimination. Dr. Edgar P. Hickman, Professor of Management Science and Statistics, points out that although "figures don't lie," the idea that figures "speak for themselves" can lead to faulty conclusions. He demonstrates by example how nowhere is this more dangerous than in the area of statistical evidence in the study of discrimination.

13 **The Employer and Employment Laws**, a regular feature by James J. Baldwin, Partner in the law firm of Haynsworth, Baldwin and Miles. In this month's column, **Activity by Employees to Protest Job Safety Conditions: Employers Take Note**, Baldwin tells how the U.S. Supreme Court recently upheld an OSHA refusal to work regulation that protects employees from being disciplined or discharged when they refuse to perform an assigned task because they are afraid of serious injury or death. He warns that employers who are unaware of these rights run the risk of violating the law if they discharge or discipline employees engaging in these protest activities.

15 **Bottom Lines**, a regular feature by Dr. James B. Edwards, Professor of Accounting and expert consultant to Management. In this latest offering, **Federal Tax Lines**, Dr. Edwards zeroes in on the Subchapter S Corporation, which elects to be taxed more like a partnership than a regular corporation for Federal income tax purposes.

17 **Staffing for Success: A State of the Art Report on Management Trainee Recruitment and Development at Riegel Textile Corporation.** Riegel Textile Corporation believes the success of any organization is dependent upon the quality of its management personnel and their ability to obtain desired results. Joseph T. Allmon, Riegel's Corporate Vice-President, explains how management personnel are recruited, trained, and developed at Riegel and fitted in as producing members of the management team.

18 **Liberty Life Celebrates 75 Years.** The University of South Carolina's College of Business Administration and the **Business and Economic Review** congratulate Liberty Life upon its 75th Anniversary.

29 **The I.R.S. and the Marriage-Go-Round: A Review of the Marital Status Penalty Tax and Proposed Corrective Legislation.** The I.R.S. apparently has it in for working couples, at least as far as paying taxes is concerned. Some of them have found that by divorcing and continuing to live together, they can save taxes without changing anything else. With the cost of living, this seems an attractive answer to a growing number of people. William Elbert Jones and Al L. Hartgraves, Jr. tell what Congress is doing legislatively to get rid of the so-called marriage penalty and explain how it operates against those working couples in which both members are in the same income bracket.

35 **The Management Bookshelf**, a regular feature in which Dwight Gardner, USC BA's Business Librarian, reviews books of interest to business practitioners.

36 **Statistical Indicators of South Carolina Business.** A regular feature, listing the latest available data.

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This month's cover: Apollo's faithful priest Laocoön and his sons had it easy fighting serpents sent by vengeful gods compared with the struggle the American economy is having wrapped in the all-encompassing regulations of modern government. See page 3 of this issue.

Recent Trends in Federal Regulation of Business

By Ronald P. Wilder

The purpose of government regulation of health, safety, and environmental quality, say proponents, is to improve the quality of life. The results of such government regulation, argue an increasing number of critics, have been massive regulatory costs, declining productivity, and an increase in the inflation rate.

The decade of the 1960's marked a watershed in the development and application of Federal regulation of business. Prior to that time, such regulation had fallen primarily into one of two categories. The first variety, characterized by antitrust policy, had the objective of modifying the state of competition in individual markets. The second variety, exemplified by public utility regulation, had the objective of controlling entry, rates, and profitability levels in specific utility industries. The effect of both was to alter the market environment in which firms operated. Management of affected firms took the regulatory environment into consideration when they made pricing, output, and other business decisions. Specific managerial decisions, such as hiring and firing, choice of production techniques and the nature of the product, however, were essentially decisions internal to the firm.

This traditional regulation, therefore, tended to be industry specific and directed toward shaping the environment in which business firms operate. The institutions involved in implementing these controls included the Antitrust Division of the Department of Justice, The Federal Trade Commission, and such other Federal regulatory commissions as the Civil Aeronautics Board, The Federal Communications Commission, and The Interstate Commerce Commission.

Dr. Ronald P. Wilder is Associate Professor of Economics in the College of Business Administration at The University of South Carolina. Dr. Wilder earned his B.A. and M.A. Degrees in Economics at Rice University, and his Ph.D. Degree in Economics at Vanderbilt University. His research interests include industrial economics, regulated industries, and energy economics.

Beginning in the 1960's and continuing through the 1970's, however, a new wave of Federal regulation appeared.[1] It differed from the original requirements in the following ways: (1) The new regulation tends not to be industry specific. Rather, it is directed more toward business firms in general than firms in particular industries or sectors. (2) Instead of affecting managerial decisions indirectly by altering market environments, the new regulation tends to be directed toward specific managerial decisions. (3) The new regulation is directed toward broad social objectives rather than narrowly defined economic objectives. In other words, the new regulation is more closely related to quality of life than to traditional measures of economic output such as gross national product.

The purpose of this article is to survey recent trends in Federal regulation and to discuss some of their costs and benefits. The concluding section addresses the issue of deregulation.

SCOPE OF THE NEW FEDERAL REGULATION

A partial listing of the areas of new regulation is shown in Table 1. The scope of the new regulation ranges from the business firm's activities in input markets, including regulation of employment practices and energy consumption, to conditions in production, including worker safety and health and environmental pollution, to the nature of the product in the form of product safety regulation. Because of the broad range of the new regulation, managers in virtually all the functional areas of the firm are affected. The effects on management are substantial. Managerial decision making is constrained by the numerous Federal

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[1] The following are two of the first works calling attention to the characteristics of this new trend in regulation: W. Lilley and J.C. Miller, "The New 'Social Regulation,'" **The Public Interest** (Spring 1977); and Murray Weidenbaum, **Business, Government, and the Public** (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1977).

TABLE 1. Scope of the New Federal Regulation: A Sample of Recent Legislation

Year of Enactment of Enabling Legislation	Name of Legislation	Objectives and Requirements
1962	Food and Drug Amendments	Require pretesting of drugs for safety and effectiveness and labeling of drugs by generic names
1962	Air Pollution Control Act	Provides first modern ecology statute
1963	Equal Pay Act	Eliminates wage differential based on sex
1964	Civil Rights Act	Creates Equal Employment Opportunity Commission (EEOC) to investigate charges of job discrimination
1965	Water Quality Act	Extends environmental concern to water
1965	Cigarette Labeling and Advertising Act	Requires labels on hazards of smoking
1966	Fair Packaging and Labeling Act	Requires producers to state what a package contains, how much it contains, and who made the product
1966	Child Protection Act	Bans sale of hazardous toys and articles
1966	Traffic Safety Act	Provides for a coordinated national safety program, including safety standards for motor vehicles
1966	Coal Mine Safety Amendments	Tightens controls on working conditions
1967	Flammable Fabrics Act	Broadens Federal authority to set safety standards for flammable fabrics, including clothing and household products
1967	Wholesale Meat Act	Offers states Federal assistance in establishing interstate inspection system and raises quality standards for imported meat
1967	Age Discrimination in Employment Act	Prohibits job discrimination against individuals aged 40 to 65
1968	Consumer Credit Protection Act (Truth-in-Lending)	Requires full disclosure of terms and conditions of finance charges in credit transactions
1968	Interstate Land Sales Full Disclosure Act	Provides safeguards against unscrupulous practices in interstate land sales
1968	Wholesome Poultry Products Act	Increases protection against impure poultry
1968	Radiation Control for Health and Safety Act	Provides for mandatory control standards and recall of faulty atomic products
1969	National Environmental Policy Act	Requires environmental impact statements for Federal agencies and projects
1970	Amendments to Federal Deposit Insurance Act	Prohibits issuance of unsolicited credit cards. Limits customer's liability in cases of loss or theft to $50. Regulates credit bureaus and provides consumers access to files
1970	Securities Investor Protection Act	Provides greater protection for customers of brokers and dealers and members of national securities exchanges. Establishes a Securities Investor Protection Corporation, financed by fees on brokerage houses
1970	Poison Prevention Packaging Act	Authorizes standards for child-resistant packaging of hazardous substances
1970	Clean Air Act Amendments	Provides for setting air quality standards
1970	Occupational Safety and Health Act	Establishes safety and health standards that must be met by employers
1971, 1974	Federal Election Campaign Act	Provides for organization of Political Action Committees. Sets Limits on Political spending
1972	Consumer Product Safety Act	Establishes a commission to set safety standards for consumer products and bans products presenting undue risk of injury
1974	Employee Retirement Income Security Act	Provides detailed standards for private sector pension plans
1975	Energy Policy and Conservation Act	Sets forth energy conservation measures
1978	National Energy Act	Provides for changes in public utility ratemaking, natural gas deregulation, coal conversion, conservation, and taxation

Source: Murray Weidenbaum, **Business, Government, and the Public** (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1977), pp. 6-8 regulations covering virtually every important aspect of business activity. Some examples of these effects are listed below.

1. Decision making time is increased because of the necessity of considering compliance with Federal regulation for each decision made.

2. Uncertainty is increased because of the broad wording of much of the new regulation. Uncertainty is also related to the relatively undeveloped state of case law regarding the new regulation.

3. Because of the time and uncertainty effects, additional resources in decision making and compliance are required. These additional resources add to the cost of production.

Data summarizing the effects of the new regulation on the activity of the business firm can be found in Table 2. These data suggest that the scope of the new regulation is firm-wide, and not restricted to senior corporate management and staff.

In addition to noting the number and breadth of the new Federal regulations, it is also important to point out that the new regulations tend to be prescriptive in nature. That is, rather than merely stating laws without specifying details of how a firm may comply, the new regulation frequently sets design standards and specific means of compliance. Hence, the constraining effect on the firm is even greater than would be suggested by the mere number of new regulations and regulatory institutions.

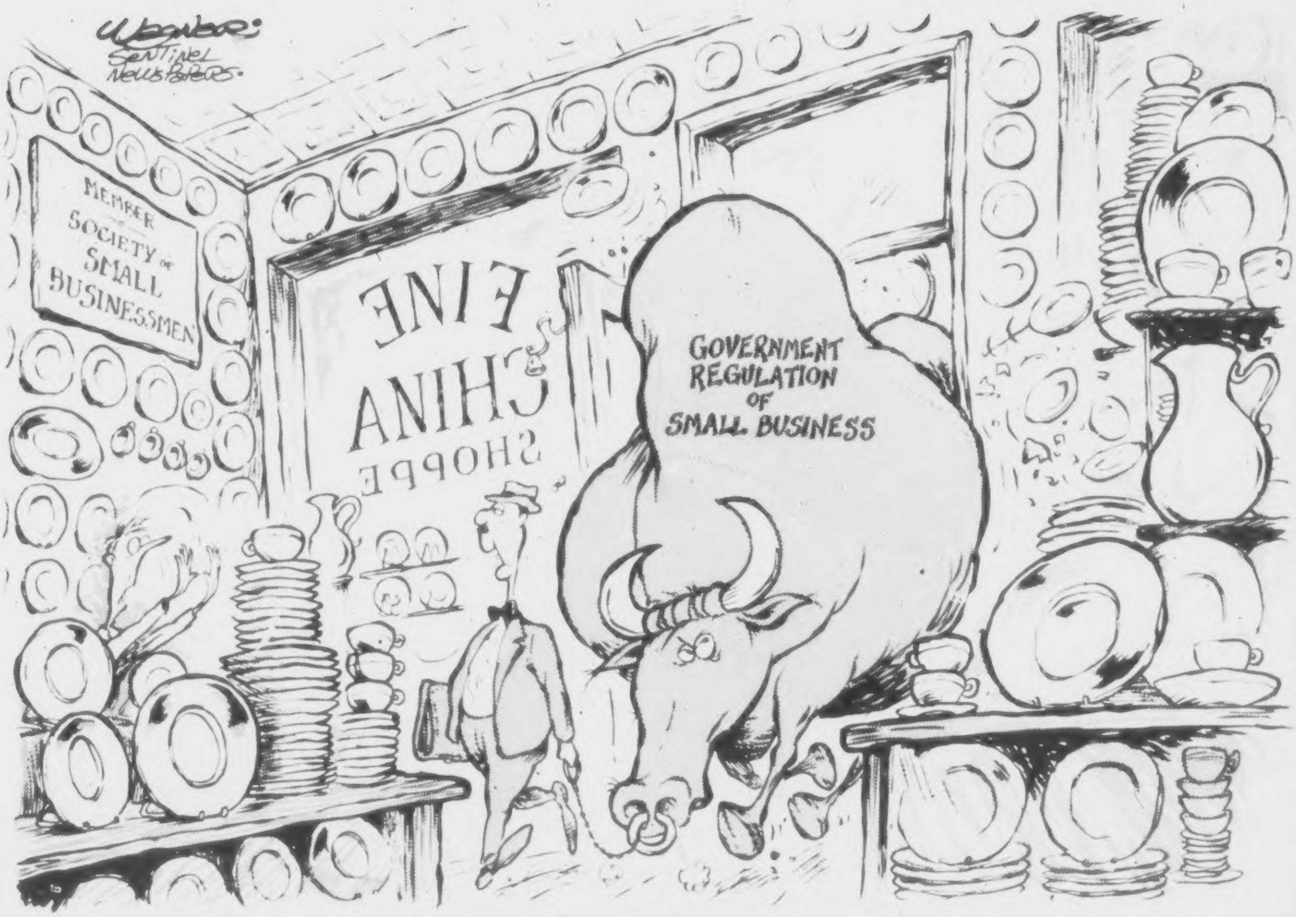
COSTS AND BENEFITS OF REGULATIONS

The general objective of most of the new regulation is to improve the quality of life. This objective is pursued by specific laws that affect working conditions, the quality and safety of the product, living conditions, and individual rights and freedoms. Although many critics of the new regulations focus their criticism on the high costs of implementing these programs, it should not be overlooked that most programs also have positive benefits. Because of the intangible nature of many of the effects of the new regulations, however, quantitative measurement of benefits is difficult. Most observers would agree that quality of life has improved as a result of the provisions of the new regulations, but there is little agreement on whether the benefits are small or substantial and whether benefits are larger than costs. It has also been pointed out that at the time of passage of the majority of the laws implementing the new regulation, Congress had only a very imperfect knowledge of the benefits and costs that would be involved.

The question of whether benefits outweigh costs is an important one because the proper allocation of society's scarce resources requires that these resources be used in those pursuits with the highest proportion of benefits to costs. In the private sector, resource allocation responds to supply and demand and the profit motive. In the public sector, however, profit signals are usually absent, and allocation depends upon Congress' judgment regarding benefits and costs. Passing regulations without regard for the benefit-cost relationship necessarily results in a misallocation of resources. The fundamental

TABLE 2. Federal Regulation and the Activities of the Business Firm

Functional Area	Examples of Regulatory Constraints
Corporate Headquarters and Staff (top management, accounting, finance, and legal)	Antitrust Taxation Securities regulations Overall regulatory compliance
Personnel	Equal employment opportunity Pension regulations Labor relations laws
Production	Occupational safety and health Environmental protection Energy Product safety
Marketing	Antitrust FTC-advertising regulations Product safety


SENTINEL NEWSPAPERS.
MEMBER of SOCIETY of SMALL BUSINESSMEN
FINE CHINA SHOPPE
GOVERNMENT REGULATION OF SMALL BUSINESS

"Mind if we browse around?"

economic problem of scarcity dictates that such misallocations cause a reduction in society's total output. In the last few years, the Council on Wage and Price Stability has undertaken a series of benefit-cost studies of legislative proposals. In many cases the council's studies have found that proposed legislation was not justified on a benefit cost basis.[2]

One area of regulation in which extensive estimates of costs and benefits have been made is that of environmental protection. The Council on Environmental Quality has estimated that the damages incurred by society from air pollution would be in excess of $25 billion per year in the absence of pollution controls. This estimate of the potential benefits of pollution control can be compared with annual costs of compliance with pollution control regulation in the range of $3-5 billion.

On the surface, these order of magnitude values give the impression that the benefit cost ratio for environmental regulation may be favorable. However, preliminary studies of the causes of reduced pollution loads in the United States suggest that other forces, such as technological change and fluctuations in the level of economic activity, may account for most of the observed reductions in pollution levels.[4] In other words, although pollution has decreased in recent years, it is not clear that regulation has been the major causal force.

In other regulatory areas as well there is considerable controversy and doubt regarding benefit-cost relationships. For example, OSHA has proposed an industrial noise standard that would set an absolute limit on sound levels in industrial plants. The cost of protecting workers by requiring that hearing protectors (ear plugs or ear muffs) be worn would be much lower than setting an absolute noise standard that has to be met by modifying machinery and equipment. In this case, the choice between setting standards for ambient noise levels versus allowing the same objective (protecting workers against hearing loss) to be met by wearing hearing protectors would make a considerable difference to the cost of regulation.

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[2] See, for example, J.C. Miller and Bruce Yandle, ed. **Benefit-Cost Analyses of Social Regulation** (Washington, D.C.: American Enterprise Institute, 1979).

Weidenbaum, **Business, Government, and the Public**, Chapter 6.

[4] Paul McAvoy, **The Regulated Industries and the Economy** (New York: W.W. Norton, 1979), p. 102.

A similar example may be found in the case of the automobile crash protection regulations. The Department of Transportation has proposed that air bags be required in all passenger vehicles beginning in the mid-1980's. The experience in other countries suggests that similar or higher levels of protection could be achieved by laws requiring mandatory lap and shoulder belt usage. Although on a benefit-cost basis the mandatory usage of lap and shoulder belts would be superior to air bags, the final rules may require air bags on the grounds that it is difficult to persuade motorists to wear seat belts.[6]

Congress appears to have underestimated consistently the ultimate cost of many of the new regulations. This underestimation of cost is related to the prevailing conventional wisdom when the new regulatory legislation was being passed that regulatory costs were low. The actions of Congress seem to have been based on the assumption that the benefits of regulation are substantial, the costs are relatively low, and therefore each aspect of the new regulation can be justified on a benefit-cost basis. Recently, researchers have begun to add up the costs of some areas of regulation, with the conclusion that regulatory costs may be very high.

The most comprehensive estimates of regulatory costs were those made by Murray Weidenbaum of Washington University. Professor Weidenbaum estimated that total regulatory costs were in the range of $66 billion in 1976 and that they may well have exceeded $100 billion in 1979.[7] Details of Weidenbaum's cost estimates are shown in Table 3.

Probably the most striking inference from Table 3 is that the costs to business firms related to complying with the provisions of the new regulation are the major cost component, with administrative costs to the Federal Regulatory Agencies minor by comparison.

TABLE 3. Estimates of the Annual Cost of Federal Regulation by Area, 1976 (billions of 1976 dollars)

Regulatory Area	Administrative Cost[a]	Compliance Cost[b]	Total
Consumer safety and health	$1.5	$ 5.1	$ 6.6
Job safety and working conditions	.5	4.0	4.5
Energy and environment	.6	7.8	8.4
Financial regulation	.1	1.1	1.2
Industry-specific (regulated industries)	.5	19.9	20.4
Paperwork	[c]	25.0	25.0
Total			$66.1

Source: Murray Weidenbaum and Robert DeFina, "The Cost of Federal Regulation of Economic Activity," Reprint No. 88 (Washington, D.C.: American Enterprise Institute, 1978).

[a] Cost to the government regulatory agencies.

[b] Cost to the regulated firms.

[c] Included in other categories.

These estimates of regulatory costs are crude and, in some cases, include income redistribution effects and resource costs. The estimate of paperwork costs is probably the least precise of the cost categories shown. A separate estimate made by the General Accounting Office found paperwork costs to exceed $1 billion annually for complying with only a fraction of all Federal regulations.[8]

A recent source of major concern to policy makers is the effect of regulation on labor productivity. During the period 1948-'65, the annual rate of growth in labor productivity averaged more than 3 percent. In the mid-1960's, however, labor productivity began to decline, and over the period 1965-'73, the average growth rate was only 2.3 percent. This decline accelerated in the mid-1970's, with an average annual growth of only 1 percent between 1973-'77. The productivity picture worsened between 1977 and 1979, and in the first half of 1979, labor productivity growth was negative.

It is difficult to estimate the extent to which the productivity decline is related to increases in regulation. The Council of Economic Advisers has cited studies suggesting that regulatory trends may account for about one-half of 1 percentage point of the recent decline in productivity growth.[9] (For

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[5] Miller and Yandle, **Benefit-Cost Analyses**, Chapter 4.

[6] Ibid., Chapter 7.

[7] Murray Weidenbaum and Robert DeFina, "The Cost of Federal Regulation of Economic Activity," Reprint No. 88 (Washington, D.C.: American Enterprise Institute, 1978).

[8] U.S. General Accounting Office, **Federal Paperwork: Its Impact on American Businesses** (Washington, D.C.: Government Printing Office, November 1978).

[9] U.S. President, **Economic Report of the President**, January 1979, 85-91.

example, one-half of 1 percent of a 3 percentage point decline in productivity growth would mean that regulation may account for one-sixth of the total decline.) The new regulation may affect productivity in two ways. First, regulation, with its focus on quality of life and quality of working environments, may increase the **quality** of national output, without increasing the **quantity** of output. To the extent that measured output is thereby understated, there is an apparent decline in productivity that is directly related to the new regulation. Second, the resources required to comply with regulation show up as increases in labor and capital inputs relative to output. This effect also decreases measured productivity.

The link between regulation and productivity extends even further by affecting inflation. As productivity decreases, unit labor costs increase, with a resulting increase in the inflation rate. Some function of the acceleration in rates of inflation is indirectly related to changes in the regulatory environment.

In summary, the potential effects of regulation include both benefits and costs. Although in the early years of increased regulatory activity relatively little attention was paid to quantifying benefits or costs, in more recent periods greater effort has been made to study both. One recent review of regulatory effects by Paul McAvoy has drawn the following pessimistic conclusion:

> It is clear that the health and safety regulatory system has increased prices and reduced GNP in the most regulated industries. These conditions have probably been realized to an important extent already. There have been indications that, because of drawing attention toward equipment and away from behavior, the control system had also not brought about improvements generally in health, safety, and environmental quality as of the late 1970's. In other words, those regulatory agencies have been having a substantial cost effect, but not the benefits intended in the enabling legislation. They have increased costs of production, which have increased prices to consumers, without having brought about significant improvements in the safety and cleanliness of production and consumption.[10]

A more widespread use of benefit-cost analysis should insure that regulatory resources are allocated more efficiently. More careful attention to the costs involved should also work to lessen the undesirable side effects of regulation in the form of compliance costs, paperwork, and the negative effects on productivity and inflation.

PROSPECTS FOR DEREGULATION

In recent sessions of Congress, the degree of interest in deregulation has increased substantially. Most of the original focus of this deregulation movement was on air and surface transportation, with less attention being devoted to those areas within the new regulation. Regulatory review in the area of the new regulation has been concerned primarily with two factors: (1) the level and pace of achievement of the ultimate goals of regulation and (2) the details of regulatory design. Now, however, more attention is being paid to the costs of regulation and the relationships between the pace of achieving goals and the costs. In the area of regulatory design, more attention is being paid to the presence of excessive regulatory detail and inflexible rules.[11]

The major concern currently in the area of regulatory reform appears to be the need for a comprehensive and centralized review of the economic consequences of regulation. At present there is no institutional framework in the Federal Government for considering the cost of regulation as a whole in order to make informed decisions regarding economic impacts, the establishment of objectives, and the measurement of tradeoffs between conflicting objectives and conflicting regulations. An increase in resources devoted to regulatory review, research into costs and benefits of regulations, and the establishment of regulatory priorities appears to be in order. A careful program of regulatory review will prevent society from taking either of the two extreme, and probably erroneous, courses: first, viewing regulation only in terms of benefits and ignoring or discounting its costs, or, alternatively, focusing entirely on regulatory costs and overlooking or denying the existence of any benefits.

In retrospect, the experience to date with new forms of Federal regulation serves as a reminder that the state of health of the market-oriented economy is not immune to damage in the face of broad scale regulatory intervention. To minimize its harmful effects on economic efficiency, regulation aimed at improving the quality of life should be designed to change the social performance of business firms through reliance on economic incentives rather than specific and detailed restrictions of economic behavior.

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[10] McAvoy, **The Regulated Industries and the Economy**, pp 102-104

[11] **Economic Report of the President**, 86-91

Do Figures Speak for Themselves? Statistical Evidence in Discrimination Cases

By Edgar P. Hickman

A cliché that crops up from time to time is "figures speak for themselves," or, more authoritatively, "figures don't lie." The implication, of course, is that anyone can draw the correct conclusions by simply "looking at the figures," and there is no need for sophisticated analysis and interpretation. Like many gems of conventional wisdom, though, the "figures speak for themselves" principle can lead to faulty conclusions. Nowhere is the application of that principle more dangerous than in the area of statistical evidence in the study of discrimination.

The 1970's saw an increasing use of statistical evidence in legal proceedings under Title VII of the Civil Rights Act of 1964 and by EEOC investigators. With this use came a need to consider the problem of interpreting figures. This article looks at just a few of the problems that are encountered in the interpretation of statistical evidence.

THE IMPORTANCE OF STATISTICAL EVIDENCE

To emphasize the importance of statistical evidence it should be noted that such evidence is now used by plaintiffs in discrimination cases to establish their prima facie case. This shifts to the defendant the burden of rebutting the charge of discrimination. It is even felt by some legal experts that simple statistics demonstrating a substantial disparity between the representation of minorities on an employer's work force and the surrounding population, standing alone, may establish a prima facie case for the plaintiff. A case sometimes cited as support for this proposition is **Parkam v. Southwestern Bell Telephone,** decided by the U.S. Eighth Circuit court in 1970. Statistics presented in that case showed that in 1964, Southwestern Bell had 1.86 percent Black employees and that by 1965, the figure had slipped to 1.71 percent. When these figures were compared with the 1960 population figures for the state of Arkansas, it was found that 21.9 percent of that state's population was Black. The **Parkam** court said:

> We hold as a matter of law that these statistics which revealed an extraordinarily small number of Black employees, except for the most part as menial laborers, establish a violation of Title VII of the Civil Rights Act of 1964.

Even the U.S. Supreme Court has allowed the presentation of statistical evidence as a prima facie showing of discrimination, but it has given a caution on the interpretation of statistical evidence. In the **International Brotherhood of Teamsters v. United States,** the Supreme Court in 1977 held that statistical evidence that Blacks constituted only 0.4 percent of all line-haul drivers in an area with a substantial Black population did show discrimination. The court said:

> Statistics are equally competent (as in jury selection cases) in proving employment discrimination. We caution only that statistics are not irrefutable; they come in infinite variety and, like any other kind of evidence, they may be rebutted. In short, their useful-

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ness depends on all of the surrounding facts and circumstances.

The word of caution is well taken, for while there may well have been discrimination in both the **Parkam** and **Teamster** cases, it is generally a bad idea to compare total employment percentages with population percentages for race or sex when looking for evidence of discrimination.

TABLE 1. Employment by Race for the Company

Categories	Number	Percentage Black	Percentage of Black Population
Laborers and operatives	208	80.8%	31.2%
All other employees	418	23.7	31.2

EMPLOYMENT AND LABOR FORCE AVAILABILITY

Implicit in the comparison of employment percentages with population percentages (for sex or race) is the assumption that the labor supply is the same as the general population. That such an assumption is not necessarily true — in fact, it is usually false — may be illustrated by the following case.

Several Black employees brought discrimination charges against an employer in the Charleston, South Carolina, area in 1976 charging, among other things, discrimination in the hiring of Blacks. As part of their evidence, the plaintiffs compared the employment of Blacks by the company in all jobs, other than as laborers and operatives, with the Black population in the Charleston SMSA. This comparison is shown in Table 1.

It does appear, from these figures, that Blacks were grossly underrepresented in all jobs except those in the laborers category. However, the company knew that for over 10 years it had been making a conscious effort not to discriminate in hiring on the basis of race (or sex). (It should be pointed out that, from a statistical point of view, the difference between 23.7 percent and 31.2 percent is very significant for a sample this large.) The statistician advising the company suggested that the employment figures be analysed in more detail and that they be compared with the local labor supply. This comparison is shown in Table 2.

This second analysis presented a very different picture of the company. In only three categories was Black employment below the available area percentage, and one of those was the laborers category. The other two were technicians and sales. For the technicians category of workers, there were no Blacks in the state trained in that particular specialty. While this may have been due to union discrimination, it was not due to any company policy.

The sales positions required a special knowledge of international trade and, in some cases, the ability to speak a foreign language. Here again, the supply was very limited. In short, the company had not been able to find Blacks for the few positions that had been available in these 2 categories in the last 10 years.

When possible employment discrimination is analyzed, therefore, employment for different job categories should be compared with the labor available for that particular job. For example, a firm should not be accused of discrimination against women because it has few or no female engineers if, in fact, there are few or no female engineers available in the labor market.

TABLE 2. Company Employment and Local Labor Force by Race and EEO Category

EEO Category	Employees		Labor Force* Percentage Black	Difference
	Number	Percentage Black		
Officials and Managers	143	27.3%	4.9%	+22.4
Professional	29	6.9	6.8	+ .1
Technicians	11	0.0	5.0	− 5.0
Sales	6	0.0	6.7	− 6.7
Office and Clerical	105	19.0	12.6	+ 6.4
Craftsman	64	31.3	21.3	+10.0
Operations	128	97.7	41.9	+55.8
Laborers	80	53.8	68.6	−14.8
Protective Service	60	30.0	13.2	+16.8
Total	626	42.7%	28.9%	+13.8

*Source: 1970 Census, Characteristics of the Population, Vol. 1, Part 4.2.

HIDDEN ASSUMPTIONS

Comparisons of percentages are very tricky indeed since they often involve considerations that are not immediately clear. A good illustration is a study undertaken to determine whether there was bias or discrimination against admission of females to the Graduate School of the University of California at Berkeley in 1973.

In the fall of 1973, of 8,442 men who applied for admission, approximately 44 percent were accepted. Of the 4,321 women who applied, about 35 percent were accepted. A 9 percentage point difference is statistically significant. Furthermore, the applications showed that in terms of Graduate Record Examination scores, grade-point ratios, and class ranks, the male and female applicants were about equally qualified. These data are summarized in Table 3.

A two-way table such as Table 3 is called a contingency table by statisticians. A standard statistical test comparing the observed number in each cell of the table with the expected number (when men and women are admitted equally) is called a chi-square test. A small value for the test statistics, chi-square, such as 1 or 2 would mean that there is no significant difference between admissions for men and women.

When the graduate school computed the chi-square statistics, they obtained a value of 95.8. Clearly, then, there was a statistically significant difference between the proportion of men and the proportion of women admitted to graduate school. To discover where the bias was occuring, school officials decided to look at the admissions for each of the university's graduate departments. When this was done a rather strange result occurred. Major by major there did not appear to be any bias against women; if anything, there appeared to be a slight bias against the men. How could this happen?

TABLE 3. Disposition of Applicants

Sex	Admitted	Denied	Total
Men	3,714	4,728	8,442
Women	1,512	2,809	4,321
	5,226	7,537	12,763

The nature of the problem may be seen by considering the applications and admissions for the 6 largest graduate departments shown in Table 4. Note that for the 6 departments taken together, 44.5 percent of the men were accepted while only 30.4 percent of the women were admitted to the graduate school. Nevertheless, the percentage of women accepted was greater than the percentage of men for 4 of 6 departments. Only in departments C and E were the acceptance rates for men larger than the acceptance rates for women, and those differences were very small — 37 percent vs. 34 percent and 28 percent vs. 24 percent.

In using the admission rate for the six majors combined there is an implicit assumption that the application rate for men and women is the same for all six majors. This was not the case. Majors A and B are relatively easy to get into and a large proportion of the total number of male applicants applied for these two majors. The other four majors were much harder to get into and approximately 93 percent of the total number of female applicants applied for these "hard" majors.

To obtain a more realistic picture of the admission rates for men and women a weighted average of the percentages for the 6 majors should be used. The weights should be determined by the total number of applications (male plus female) for each major area.

The average admission rate for men should be computed as:

$$\bar{m} = [(933 \times 62) + (585 \times 63) + (918 \times 37) + (792 \times 33) + (584 \times 28) + (714 \times 6)] / 4526$$

$$\bar{m} = 39\%$$

TABLE 4. Disposition of Applicants by Departments

Major Area	Men			Women		
	Applicants	Admited	Percentage	Applicants	Admitted	Percentage
A	825	512	62 %	108	89	82 %
B	560	353	63	25	17	68
C	325	120	37	593	202	34
D	417	138	33	375	131	35
E	191	53	28	393	95	24
F	373	22	6	341	24	7
Total	2,691	1,198	44.5%	1,835	558	30.4%

For women the average admission rate is

$$\overline{w} = [(933 \times 82) + (585 \times 68) + (918 \times 34) + (792 \times 35) + (584 \times 24) + (714 \times 7)]/4526$$

$$\overline{w} = 43\%$$

This is another example of figures not "speaking for themselves." Considerable analysis would be required to determine why more men than women appear to have been admitted to graduate school in this instance.

ANALYSIS USING RELATED VARIABLES

In the Charleston case referred to earlier in this article, there was also a charge of discrimination in wages for a particular job category. As evidence for this the plaintiff presented figures showing that the average wage rate in 1973 for whites in this job classification was $4.32 as compared with $4.22 for Blacks. By 1976, the corresponding rates were $4.89 for whites and $4.80 for Blacks. Because of the small variation in wage rates for this job and the fairly large number of workers involved, this was a statistically significant difference.

Here again, the company was sure that it was not discriminating on the basis of race, unless the discrimination was in **favor** of Blacks. The question, then, was why did whites continue to earn more per hour than Blacks? The company was found to have a policy of reviewing all workers once a year and of giving some raise unless the person was completely unsatisfactory. This led the statistician to suggest that wage rates be looked at in such a way that the effect of race and years with the company could be identified. The statistical technique of multiple regression was used in which wage rate (W) was assumed to be a function of years of experience (E) and race (R). This was run for each of the years 1973 through 1977. The equations for each of the 5 years are shown in Table 5.

TABLE 5. Analysis of Relationship between Wage Rate, Years of Experience, and Race

Year	Equation
1973	Wage = 4.167 + .011E + .027R
1974	Wage = 4.638 + .016E − .053R
1975	Wage = 4.353 + .039E − .125R
1976	Wage = 4.704 + .034E − .147R
1977	Wage = 5.211 + .039E − .162R

E = years of experience.
R = 1, if white; 0, if Black.

The equation for each year gives the average wage rate for workers of a given race with a given number of years of experience. The coefficients for the race variable show the difference between average wage rates for Blacks and whites after adjusting for the number of years of experience. For example, in 1973, whites made 2.7 cents more per hour than Blacks with the same experience. In 1974, Blacks with the same experience made 5.3 cents more per hour than whites, and by 1977, this had increased to 16.2 cents more per hour for Blacks than whites.

While the original figures seemed to indicate that Black wage rates had not improved relative to white wage rates, that was, in fact, not the case. Actually, the company was engaged in an Affirmative Action Program and, as this analysis showed, had been raising Black wages at a faster rate than those for whites.

CONCLUSIONS

While the examples cited here show the danger of accepting what appears to be an obvious conclusion based on statistical evidence, it is not the intention of this author to imply that statistical evidence should not be used in discrimination cases. It should be used, and the sufficiency of statistical evidence alone to establish a prima facie case was affirmed by the Supreme Court in **Dothard v. Rawlinson** (1977). In that case a woman charged sex discrimination because of height and weight requirements for employment as a prison guard. The suit charged that the requirements had a disparate impact because they excluded 41 percent of women but only 1 percent of men. The court said:

> The plaintiffs in a case such as this are not required to exhaust every possible source of evidence if the evidence actually presented demonstrates a job requirement's grossly discriminatory impact. If the employer discerns fallacies of deficiencies in the data offered by the plaintiff, he is free to present countervailing evidence of his own.

Often, countervailing statistical evidence either is not available at all, or, if it is available, it may be difficult to interpret. This raises the question of what management can do to guard against the misuse of statistical evidence in discrimination cases. This author suggests the following:

1. Maintain records of applications, transfers, and promotions by date and by job classifi-

cation. Many personnel file systems are keyed to the individual, which makes information by date and job difficult to retrieve.

2. Maintain clear, up-to-date job descriptions for each job.
3. Make sure that job qualification requirements are related to job descriptions. The EEOC, which has a way with words, likes to look for requirements that have an "adverse" impact on protected minorities.
4. Appoint an Affirmative Action Officer to review all policies with a view to possible implication for discrimination.
5. If you are charged with discrimination, obtain the services of a competent and experienced statistician.

Perhaps the chief conclusion to be drawn about the use of statistical evidence is that figures seldom speak for themselves. The correct interpretation of figures requires both detailed information and careful analysis.

The Employer and Employment Laws

By James J. Baldwin, LL.D.

The Employer and Employment Laws is a regular feature. Suggestions and inquiries by readers are invited.

ACTIVITY BY EMPLOYEES TO PROTEST JOB SAFETY CONDITIONS: EMPLOYERS TAKE NOTE

Employees are now learning that they have rights under both the National Labor Relations Act[1] and the Occupational Safety and Health Act[2] to refuse to work in certain safety-related situations, without fear of employer reprisal. Some employers are unaware of these rights and consequently could violate the law if they were to discharge or discipline employees who engage in these protest activities.

One particular OSHA regulation protects an employee who refuses to perform assigned work if that refusal is based upon the employee's good faith belief that by performing the assigned task he will unnecessarily risk serious injury or death, provided it is not possible for the condition to be corrected by other means.[3] This OSHA regulation prohibits employers from discharging or disciplining employees because of their refusal to work under such circumstances.

In **Whirlpool Corporation v. Marshall**,[4] the United States Supreme Court recently upheld the OSHA refusal-to-work regulation. The case involved two Whirlpool employees whose jobs involved cleaning debris from a wire mesh screen 20 feet above the plant floor. Prior to the incident under contest, several accidents had occurred in which maintenance employees had fallen through the screens. Shortly before the refusal involved here, one employee had even fallen to his death through the guard screen. When the two employees were directed to work on a section of the screen, they refused, claiming that the screen was unsafe. As a result, they were sent home, they were not paid for the remainder of their shift, and they also were given written reprimands. The Secretary of Labor brought suit, alleging that the company's disciplinary action against the two employees violated the OSHA regulation mentioned above. The Supreme Court held that the OSHA regulation was valid,

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[1] 29 U.S.C. § 151 *et seq.* (1979). (Hereinafter referred to as the NLRA.)

[2] 29 U.S.C. § 651 *et seq.* (1979). (Hereinafter referred to as OSHA.)

[3] 29 C.F.R. § 1977.12

[4] ___ U.S. ___ (February 26, 1980)

but added that "any employee who acts in reliance on the regulation runs the risk of discharge or reprimand in the event a court subsequently finds that he acted unreasonably or in bad faith."

Employees have for some time had similar rights under the National Labor Relations Act to refuse to work under certain dangerous conditions. Although the primary thrust of the NLRA is to give employees a legal right to form labor unions and to engage in union activity, this Act also gives employees certain legal rights that do not necessarily have any connection with a union or union activity. Specifically, the Act provides that "Employees shall have the right to . . . engage in **other concerted activities** for the purpose of collective bargaining or other mutual aid or protection. . . ."[5] (Emphasis added.) The above phrase has been broadly interpreted by the National Labor Relations Board (NLRB) and the courts to cover a wide array of employee conduct that is unconnected with union activity and generally referred to as "protected concerted activity." For example, in a case involving a safety question,[6] a group of seven machine shop employees walked off their jobs without permission, claiming that their working place was too cold.[6] Their employer subsequently discharged them. The Supreme Court ruled that the employees' walkout was protected concerted activity because they had acted for their "mutual aid or protection" within the meaning of the NLRA language quoted above. Accordingly, the discharges were held to be illegal, and the employer was ordered to reinstate his employees with back pay.

There are numerous NLRB "concerted activity" cases involving employee refusal to work because of dangerous working conditions. For example, in one case,[7] the employer obtained a quantity of lead that had been used by a hospital to store radioactive material. He assigned three employees to melt and pour the lead. When one employee mentioned the assignment to his wife, a nurse, she told him that exposure to the lead would be dangerous, and he then mentioned this to his co-workers. The next day, the employees complained that the assignment was dangerous. Although they subsequently were assured by Management that there was no danger, they were still apprehensive and refused to work with the lead, which was actually safe. The following day, the company discharged the three employees for their failure to follow instructions. The employees filed charges, and the NLRB held that the company unlawfully interfered with the employee's rights to engage in protected concerted activity. The employer was ordered to reinstate the employees with backpay. The U.S. Court of Appeals in Denver agreed with the NLRB, holding that as long as **a group** of employees in "good faith" believed a condition is dangerous, their subsequent refusal to work is protected concerted activity.

In most cases in which the NLRB protects employees who refuse to work, more than one employee must be involved, i.e., the activity must be "concerted." In recent years, however, the NLRB has expanded the doctrine of "protected concerted activity" to include some situations in which **a single** employee's refusal to work is **on behalf of** his fellow employees. For example, a single employee who refused to drive a truck he thought had faulty brakes was found by the NLRB to be engaged in protected concerted activity since his safety protest was made, not only for himself, but also on behalf of his fellow employees.[8] Thus far, some courts have rejected this NLRB theory, holding that employee action in an individual capacity is not protected because it is not in "concert with other employees."[9] However, other courts have approved of the NLRB's expansive theory that an individual's conduct amounts to protected concerted activity when such conduct is of mutual concern to other employees.[10] Since the Federal courts appear to disagree on the circumstances under which the Board's expansive theory should be followed, the U.S. Supreme Court will eventually have to settle the law on this point.[11]

The NLRB's expanded protection of employees who protest unsafe working conditions, along with the OSHA regulation recently approved by the Supreme Court in the **Whirlpool** case, could begin to cause employers numerous problems and disruptions. Employees could refuse to work and easily disrupt operations by claiming that they fear certain alleged "unsafe" working conditions when the real reason for their refusal to work might be totally unrelated to unsafe working conditions. The vagueness of the "good faith" standard, under which the NLRB protects employee activity to protest alleged unsafe working conditions makes it particularly risky for the employer to penalize employees for such activity, because it is extremely easy for the NLRB to find that an employee was acting "in good faith" when he refused to work.

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[5] NLRA, Section 7, 29 U.S.C. § 157 (1979).

[6] **NLRB v. Washington Aluminum Co.**, 370 U.S. 9 (1962).

[7] **NLRB v. Modern Carpet Industries**, ___ F.2d ___ (10th Cir. 1979).

[8] **United Parcel Service**, 241 NLRB No. 166 (April 23, 1979).

[9] **NLRB v. Dawson Cabinet Co.**, 566 F.2d 1079 (8th Cir. 1977).

[10] See, e.g., **Interborough Contractors, Inc.**, 157 NLRB 1295 (1966), **enforced**, 388 F.2d 495 (2d Cir. 1967).

[11] It should be noted that not all concerted activity by employees is protected. According to the formulation of one U.S. Court of Appeals, concerted activity is protected only if it satisfies the following four requirements: (1) there must be a work-related complaint or grievance; (2) the employee activity must further a group interest; (3) a specific remedy or result must be sought; and (4) the activity must not be unlawful or otherwise improper. **Shelley & Anderson Mfg. Co. v. NLRB**, 497 F.2d 1200 (9th Cir. 1974). For example, employee group activity involving violence or destruction of company property normally are held to be unprotected.

The best way for employers to minimize the possibility of employee group protest activity is for each employee to be given a workable method of **individually** presenting his problems to supervision. Further, once a problem is presented by an employee, action should be taken to follow up with that employee on an individual basis. Employees should be shown that it is not necessary for them to engage in group action to get their employer to listen to their problems.

Employers can now expect to see more employee refusals to work because of claimed "unsafe working conditions." When such employee protest activities do occur, employers and their supervisors must be prepared to handle them in a legal manner. Otherwise, supervisors may unlawfully discharge the employees involved and later have to reinstate them with back pay.

This "good faith" standard should be compared with the standard of the OSHA regulation previously discussed which requires that a reasonable person would conclude that there was real danger before a refusal to work is legally protected. Conceivably, employees could, in good faith, believe a condition to be dangerous, even though such a belief is not reasonable, and come under the protection of the NLRA but not the OSHA.

Bottom Lines

By James B. Edwards, Ph.D., C.P.A., C.M.A., C.I.A., C.D.P.

Bottom Lines is a regular feature that brings attention to practical business taxes and accounting. Suggestions and inquiries by readers are invited.

FEDERAL TAX LINES

This month's column focuses on the Subchapter S Corporation, which elects to be taxed more like a partnership than a regular corporation for Federal income tax purposes.

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LINE ONE

A big problem with the regular format of reporting corporate income for Federal tax purposes is the so-called "double taxation" of corporate income. A tax is imposed at the corporate level at 17 percent on the first $25,000 of taxable income, 20 percent on the next $25,000, 30 percent on the next $25,000, 40 percent on the next $25,000, and 46 percent thereafter. Additionally, the corporate income is also taxed at the shareholder level at individual rates when distributed as dividends. The Subchapter S Corporation avoids "double taxation" because its earnings, whether distributed or not, normally are taxed only to the stockholder.

Whether or not this Subchapter S format will yield less total tax depends on how much of the earnings of the corporation is distributed currently. For example, assume a married stockholder has taxable income from other sources of $100,000 plus a $100,000 share in the corporate income of a Subchapter S Corporation. The stockholder generally will pay a tax of approximately $107,032 on the $200,000 of personal taxed income. If Subchapter S is not elected, the corporation generally would pay a tax of approximately $26,750 on his $100,000 share at the corporate level. This would leave $73,250 as a distribution to the stockholder. The individual tax on $173,250 is approximately $88,842 for the typical married taxpayer within this general range of income. Thus, the total Federal income tax is approximately $115,592 — the Subchapter S election reduces total tax approximately $8,560 if all of the corporate income, net of applicable corporate level tax, is distributed currently.

If none of the corporate income is distributed, the stockholder would still pay an individual tax of approximately $107,032 under the Subchapter S format. Under the regular corporate format (non-Subchapter S) the stockholder would not incur any tax on his share of corporate earnings until it was distributed as dividends. However, the corporation would incur the $26,750 current tax on corporate income.

Where all corporate income is retained by the corporation, the current tax effects depend on the relative tax brackets of the corporation and each stockholder. If a stockholder's individual tax rate is higher than the corporation's income tax rate, operation as a regular corporation creates another taxable entity with which to split income, bringing the total income subject to tax into lower rates. This is an important consideration where accumulated earnings are being plowed back into the corporation. **WARNING:** The Sec. 531 accumulated earnings penalty tax may apply, unless there are valid business reasons for the accumulations.

Even in the case of a distribution of part of the earnings, the regular corporation may still mean lower total current tax. The retained part currently bears only the corporate level tax, which may be smaller than the stockholder's tax on the amount that would be included in his individual income under the Subchapter S format (election). There are no general rules; each case must be evaluated.

If the earnings are never withdrawn during the stockholder's lifetime, the fact that part of the tax (individual's tax on dividends received) has been postponed until the earnings are realized under the regular corporate format cannot be ignored. In fact, death may produce a higher basis for the stock (depending on the date of acquisition), thus reducing the potential gain on a subsequent disposal.

Of course, there are a number of other considerations in making the choice between the regular and Subchapter S Corporation. However, space does not permit coverage of all aspects of the Subchapter S Corporation in this issue.

LINE TWO

The undistributed income of the Subchapter S Corporation increases the basis of the stockholder's stock to the extent that such income has already been included in the stockholder's individual taxable income. Conversely, any loss passed through to a stockholder decreases the basis of his stock and he gets a current deduction on his individual tax return limited to basis of the stock. Any part of a loss passthrough that exceeds the stockholder's stock basis is then applied to reduce the basis of any debt the corporation owes him. Any unused portion cannot be carried forward to future years, so excess loss passthroughs are lost forever.

Any eventual distribution of previously taxed income will also reduce the stock basis. However, there are conditions on when and how this previously taxed income can be distributed. First, all corporate profits for the distribution year must be paid out in cash. Then, only money distributions in excess of current profits will be tax free and charged against the stockholder's net share of previously taxed income. A distribution of property is never a distribution of previously taxed income.

A special provision of the tax law treats cash distribution during the first 2½ months of the following taxable year, in effect, as having been made on the last day of the previous year ended, up to 2½ months earlier.

Example: Calendar year Subchapter S Corporation has taxable income of $100,000, none of which is distributed during the year. Assume that all the stock is owned by one stockholder. He must include the entire $100,000 in his individual taxable income as a constructive dividend (not subject to dividend exclusive benefits). On February 10 of the following year, the corporation distributes $50,000 in cash to the sole stockholder. The distribution is considered to be out of the $100,000 above.

If the above $50,000 distribution were made on April 15 (beyond 2½ months from end of previous taxable year), it would be considered as distributed from previously taxed income.

Any taxable income not distributed within 2½ months after end of the taxable year is considered previously taxed income and added to the stockholder's stock basis. Subsequent distributions are then subtracted from stock basis.

Under Subchapter S, all profits are taxed at the stockholder's level, and generally no further taxes are incurred when profits are distributed. The taxed income to the stockholder generally is treated as ordinary income. Only net long-term capital gain retains its favorable tax status when passed through to the stockholders of a Subchapter S Corporation.

LINE THREE

To achieve Subchapter S Federal tax status, the corporation and its stockholders must file an election (Form 2553), as well as consents signed by each stockholder. The election must be filed sometime during the tax year preceding the election year, or the first 75 days of the election year.

There are other rules for qualification and other important factors to understand about a Subchapter S Corporation. You should consult your tax adviser before you take any action in this area.

Staffing for Success: A State of the Art Report on Management Trainee Recruitment and Development at Riegel Textile Corporation

By Joseph T. Allmon

EDITOR'S NOTE: The role of colleges and universities in educating individuals for positions of leadership is relatively well known. Sometimes overlooked, however, are the internal programs of businesses and other organizations to continue the educational process for their employees. This article is the third in a series designed to give a familiarity with the recruitment and training programs in the various types of industries, i.e., banking, textiles, the electrical industry, etc. This month's offering, describing the management trainee recruitment and development program at Riegel Textile Corporation, is intended to serve as a typical picture of industrial training programs in South Carolina. We are specifically interested in such topics as productivity, absentee control, discipline, cost control, quality control, scrap reduction, etc. If you have programs on these topics you would like others to know about, please contact us so we can arrange to have a representative talk with you about possible articles on them.

> The success of any organization is dependent upon the quality of its management personnel and their ability to obtain desired results. Companies that have a well-developed program for selecting and training management personnel will normally achieve the expected level of success with minimum interruptions resulting from the loss of key individuals, low morale, mediocre performance, and other deterrents . . .

So begins Riegel Textile Corporation's policy statement expressing that company's management development philosophy. It is well to have such a statement against which to measure daily performance, if only as a reminder that the best procedures are no better than the results achieved. The passage just quoted, however, does not spell out what Riegel may be doing to make success in personnel selection and retention any more predictable than some other company. On the contrary, almost any business with which Riegel competes for people, and — within textiles — for market dominance and investment return, could subscribe

(continued on page 21)

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Liberty Life Celebrates 75 Years

Liberty Life Insurance Company, celebrating its Diamond Jubilee this year, began as Southeastern Life Insurance Company. The company was founded on the premise that more Southern-owned and operated companies were needed in this area because they would be able to serve local people more effectively.

In 1912, Southeastern Life, headquartered in Greenville, added a general agent who was to exert a greater influence on the company than any other person: W. Frank Hipp. Though Liberty Life has had many names, the Hipp surname has remained linked with the company from 1912 to the present.

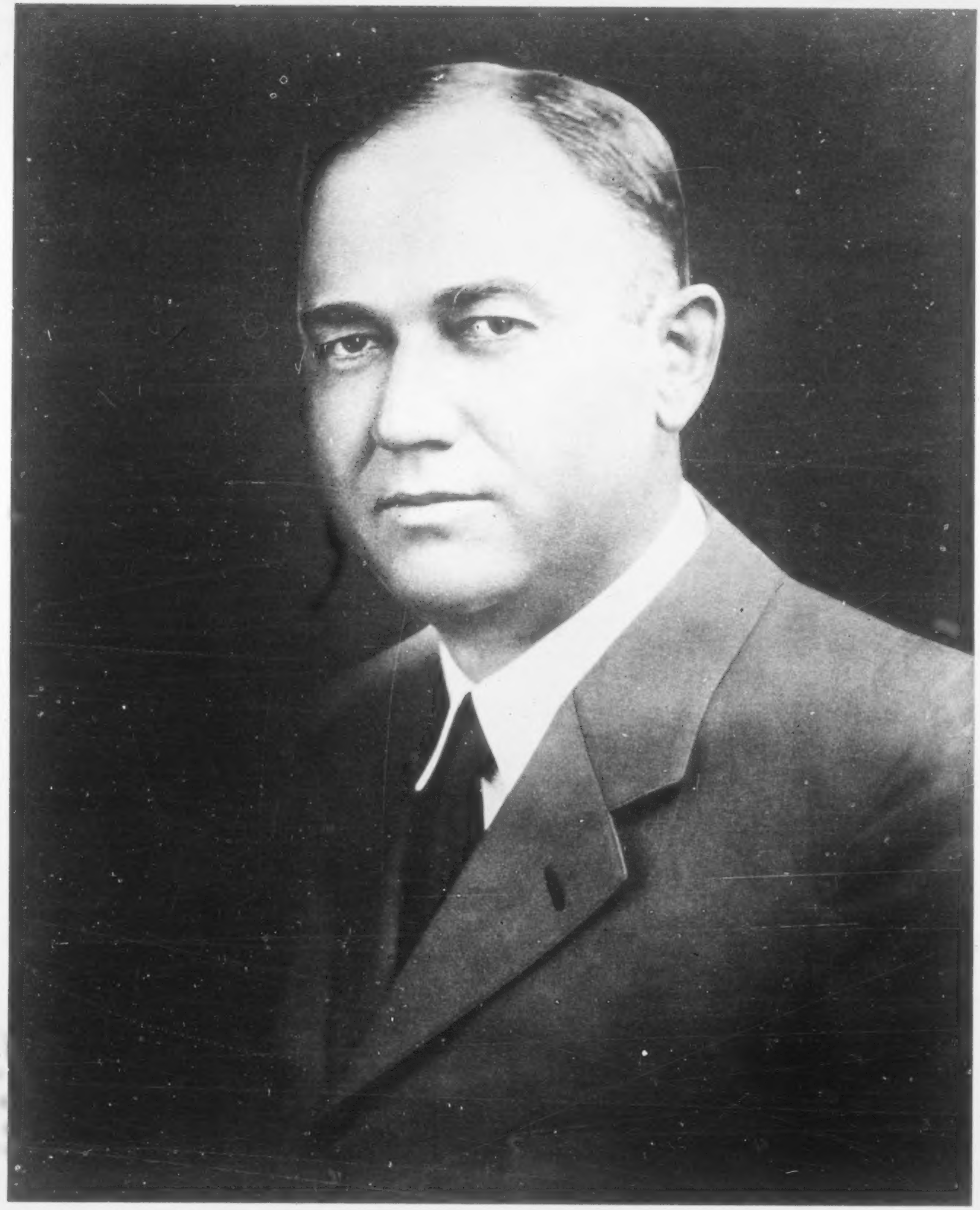
Seeing a need for a new life insurance company, W. Frank Hipp left Southeastern in 1919 and founded The Liberty Life Insurance Company. The Liberty Life began by offering weekly premium life insurance, then health and accident insurance. The market base was broad, reaching both wage earners and rural residents who couldn't afford the Ordinary policies offered by Southeastern Life.

In the following years, The Liberty Life brought many progressive insurance practices to the area. This company was one of the first to issue policies on the basis of an application rather than a physical exam. It also helped introduce the concept of group life insurance in the Southeast, and, at a time when few companies offered decreasing term mortgage cancellation insurance through lending institutions, The Liberty Life did.

In 1931, The Liberty Life bought controlling interest in Southeastern Life. A joint management team brought the two companies together two years later, with W. Frank Hipp serving as President of both companies. It wasn't until 1941 that the two companies merged and ceased operating independently. The Liberty Life assumed the 1905 charter of Southeastern Life and became Liberty Life Insurance Company. W. Frank Hipp served as President of the company, which offered a broad line of insurance protection and had resources of $12 million and total insurance in force of $165 million.

A year after the companies merged, W. Frank Hipp unexpectedly passed away. Francis M. Hipp, eldest son of the founder, assumed control of the company in the position of President and Chief Executive Officer. Under his guidance the company grew until it had a total of $1 billion of insurance in force in 1958, and $2 billion in 1966. In 1955, Liberty moved into offices it still occupies on the

Liberty Life "then"



W. Frank Hipp, founder of The Liberty Life Insurance Company

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Liberty Life "now"

corner of Wade Hampton Boulevard and Highway 291, having expanded twice.

In 1968, The Liberty Corporation holding company was formed, and in 1969, The Liberty Corporation was listed on the New York Stock Exchange. It initially served as parent company of both Liberty Life and Cosmos Broadcasting Corporation. Later, the company acquired United Fidelity Life Insurance Company in Dallas, Texas, and Greater Arizona Savings and Loan in Phoenix, Arizona.

During these growth years the company was guided by Francis M. Hipp as chief executive and his brothers B. Calhoun Hipp and Herman N. Hipp (who served as President of Liberty Life for a period of time). Also helping in the growth of Liberty Life was Harris P. Gravely, who was elected President and Chief Executive Officer of the insurance company in 1977.

In 1978, W. Hayne Hipp, son of Francis M. Hipp, was elected to the position of Vice-Chairman and Chief Executive Officer of The Liberty Corporation. Macon G. Patton was elected President of The Liberty Corporation, and these two men assumed leadership of the company in its growth and expansion. Francis M. Hipp and Herman N. Hipp hold board positions.

In 1979, The Liberty Corporation reached the major milestone of $1 billion in assets, achieved just 10 years after the formation of the holding company with $325 million in assets. The Liberty insurance companies have recently passed the $8 billion mark of insurance in force.

From a small insurance company to the position of one of the largest financial institutions in the South, Liberty Life has placed service and concern for the people of its home state and the Southeast first. For the past several years, Liberty has been active in promoting good health, fitness, and nutrition in South Carolina. It also sponsors a high school art contest annually and provides scholarships to several South Carolina colleges on undergraduate and graduate levels.

With a history of good business practices, strong leadership, and concern for the community, Liberty Life is already planning to make the next 75 years even more outstanding.

(continued from page 17)

to the view expressed, despite major differences in approach to management development. Likewise, Riegel policy setters of 10 to 20 years ago would have had no trouble concurring with it, even though their approach to the development of an effective corps of managers would have been considerably different.

Obviously, Riegel policy setters need to look beyond position statements to see what has actually been happening within the company as they try to perfect staffing methods by choosing certain practices over others. Some changes in the ways Riegel locates new people and readies them for increased responsibility are the result of trial and error. Riegel discovers what works and what doesn't work as it competes with other firms — often larger and more glamorous operations — for the young people it wants. Because competition has grown keener since the days when very few firms regularly visited campuses, Riegel must be very sure of the advantages each job candidate will enjoy in choosing that particular company over a computer firm or a space industry, or even another company in its own field. Otherwise, it cannot convincingly describe, or better yet, show him or her what those advantages will be. Further, these selling points must be real: talking a better program than you field is the height of wasted effort.

Other changes in recruitment and training practices parallel changes in the world in which Riegel does business, and in the prospective employees themselves. Generally speaking, management trainees today are more sophisticated in their grasp of options open to them than were their earlier counterparts. Riegel, for its part, is forced by rising costs to be more aware of the investment it makes in each person recruited and of all that rides on his or her capacity, with the company's help, to measure up to its expectations.

Checks Riegel can make internally (the number of people it wants whom it gets . . . the number it holds . . . the extent to which they perform as anticipated) tell it that it is making progress. So does the reputation Riegel has developed as a company whose young managers are closely watched by others. Competition is part of the game, of course, and does not deter Riegel from sharing with others insights it has gained — provided they are not used against it too often or too well! To begin, though, this article gives some general background, and then summarizes current practices and comments on some features of Riegel's talent search and development processes that are distinctive and particularly effective.

BACKGROUND

Riegel Textile Corporation ranks around 500th in most measurements of American business size and sales. Among textile manufacturers, it has stood at or above the 10th position in sales in recent years, and somewhat higher in profitability, reflecting certain marketing balances within the company that help it ride out economic cross-currents, as well as a continued effort to manage well.

The company's present identity as Riegel Textile Corporation was acquired as recently as 1946, but its origins go back a hundred years further — past the 1905 start of operation at Ware Shoals, South Carolina, to the 1845 establishment of a small Trion, Georgia, spinning plant. Riegel acquired this plant in 1912 and developed it as a major manufacturing center for denims and other practical, as well as fashionably acceptable, apparel fabrics. Riegel has also included, since 1966, upholstery manufacturing operations at La France, South Carolina, where textiles have been produced continuously since 1836 — longer than at any other South Carolina site.

The driving force within the company in its formative years was Benjamin D. Riegel, its founder. His family, which had farmed in the Delaware Valley since before the American Revolution, already had a grist mill, a saw mill, and a paper mill among its interests. The textile mill Ben Riegel added, however, succeeded to a degree that encouraged him to expand his endeavors in this new field. It can be conjectured that he might have enjoyed equal success in any field, for he set the pace in his day in many ways. Health, safety, and education practices that attract newcomers to Riegel today are natural progressions from practices instituted by Ben Riegel and his associates long before retirement programs, insurance plans, or continuing education opportunities were seen as employer responsibilities.

While Riegel has modified its textile base with the acquisition of Paula Payne, manufacturer of personal care products, growth of sales to date reflects mostly manufacturing and marketing expertise achieved in the context of administrative decentralization of operations in the company's traditional textile products field. Manufacturing involves nearly 9,000 production employees in 17 locations.

Riegel's divisions, each of which is an autonomous profit center, include Apparel Fabrics, Consumer Products, Convenience Products, International, and Ware Shoals, the last of which has Riegel's other divisions as its customers. Further, there are now two La France divisions within Riegel: one manufacturing decorative fabrics for home and automotive use, and the other marketing upholstery fabrics and supplies through 17 sales centers. In late 1979, Riegel also added Dallas/Mason Division, bringing it into the sportswear and leisure apparel field, as well.

Geographic dispersion has touched Riegel's divisions. The Convenience Products Division has added to its original disposable diaper plant at Aiken, South Carolina, others at Maryville, Missouri, and Porterville, California. Apparel Fabrics has plants at Alto, Georgia, and Fries, Virginia. La France manufactures yarn at Alto and upholstery fabrics at Woodstock, Ontario, as well as La France, South Carolina. There are Consumer Products Division plants producing infant; kitchen, and institutional textiles at Johnston, McCormick, Walhalla, and Whitmire, South Carolina; and sales offices of various divisions from coast to coast. In addition, International Division interests extend to investments in businesses in Africa and Europe, and continue to increase in their importance to the company and its stockholders.

"WALK-INS"

In all the above locations, Riegel has outstanding people who have come to the company without any recruiting effort at all, beyond the generalized effort Riegel makes — through such activities as its Bicentennial textile design competition, for example—to spread the word that Riegel is a good place to work. The number of people who have found Riegel in this way is not so great that the company can sit back and wait for its personnel needs to be met, but "walk-ins" have been important enough to keep Riegel on the watch for people who, as Gerald Burgess, Apparel Fabrics Division Personnel Director, puts it, "find us without our having to find them." As examples, he cites three people contributing to the success of his own division.

Bill Elrod, Carding Superintendent at Alto, Georgia

Bill was hired on an hourly basis as a drawing tender when the plant opened. His promotability was recognized, and he performed equally well in a variety of industrial engineering jobs. He welcomes challenge and has handled other assignments very well — editing the plant paper at one time and, more recently, overseeing preventive maintenance — while dealing effectively with his primary task. His approach to training is highly organized, but also personal. Every new person, to cite one example, meets his or her manager for get-acquainted conversation before reporting for duty the first time. In Burgess's view, Elrod directs training from a position of strength, "because he's been where the trainee is."

Kent Snow, Bleaching Superintendent at Trion, Georgia

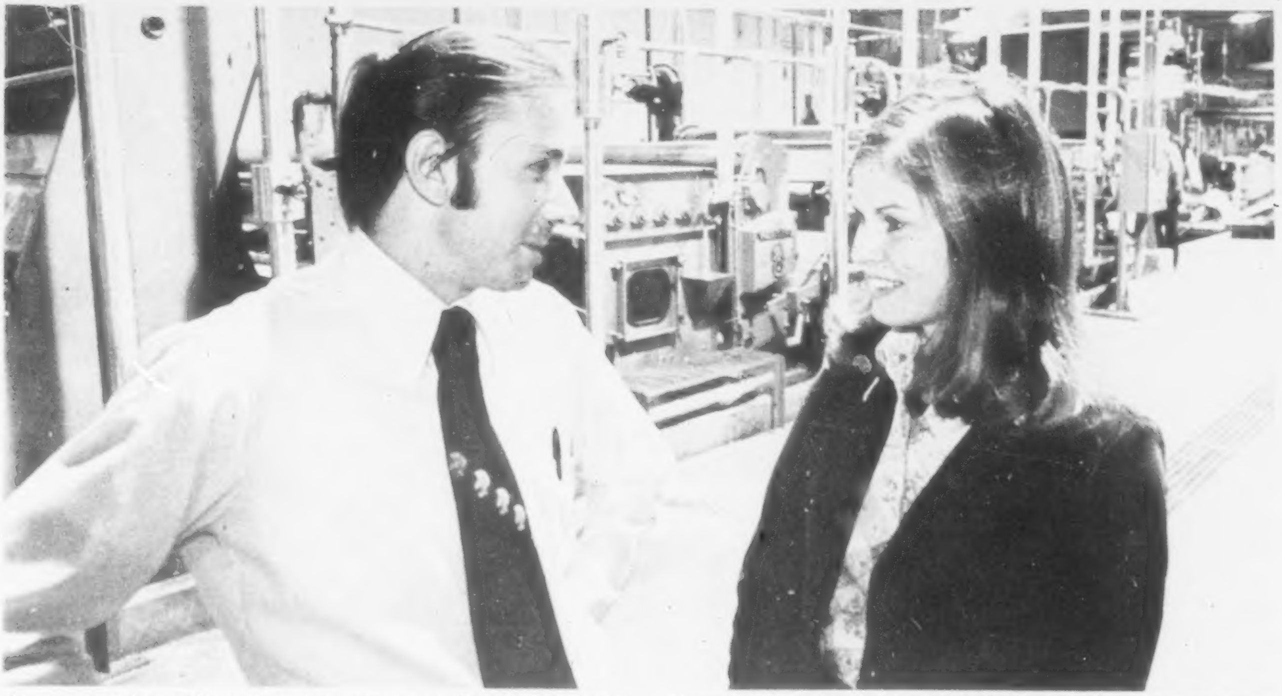
Kent came to Riegel as a new Georgia Tech graduate seeking work in his hometown of Trion, Georgia. He gained production experience at the grey mill and finishing plant there. Next came two years at Ware Shoals where the lifetime insights of a senior technical man could rub off on him, and then a stint in product development in Atlanta: total background that makes him very valuable to Riegel in his present technical services position.

(While Riegel found the two men just mentioned in its own backyard, so to speak, the next case Burgess cites is different.)

Dianne Davies, Quality Control Manager at Trion, Georgia

Dianne was still in college, completing a textile technology degree program at the University of Maryland, when she wrote to Riegel last spring. The company was pretty well set at the time on the people it hoped to bring aboard from the 1979 graduating class, but because, in both training and set of mind, Dianne seemed to have much to offer, Riegel invited her to Trion. She flew down for an interview; her background suggested that she could move quickly to a position of responsibility; and she and Riegel are both pleased by the way things are working out.

The foregoing instances are included to establish that, when a person is right for the job, or in a broader sense, right for Riegel, Riegel is less concerned with obtaining particular credentials or adhering to standard avenues of contact than with that person's early and effective utilization. It is probably because Riegel chief executives have always thought this way that that company has benefitted daily for more than 20 years from the skills and insights of 2 present corporate officers. They are Controller Jim Bennett who began working for Riegel part time even before finishing high school; and Vice-President Jane H. Greer who joined the company, almost as early in her career, as a clerk-typist with the innate drive and



At the time this 1976 picture was included in Riegel's "Career Decision" brochure, Bernie Thompson had been away from Georgia Tech eight years and had added enough textiles and management expertise to his chemist's credentials to become Manager of the La France, South Carolina plant where Riegel's widely-known velvets are finished. Debbie Ware, recruited the previous spring at Wake Forest University, was a fledgling industrial engineer at the same plant. Since then, Thompson has moved through the positions of Technical Services Manager and Manufacturing Manager for all La France, South Carolina, operations including weaving, to the position of Vice-President Manufacturing with responsibility for all manufacturing operations at all La France locations. Ware, who had majored in math, has moved from industrial engineering to the position of Analyst in the company's long term planning group at its Southern Executive Offices in Ware Shoals, South Carolina. The contrast between Thompson's straight-line progression and Ware's lateral movement utilizing strengths she brought with her against the background of skills she acquired on the job suggests the ways in which Riegel seeks to place upwardly-mobile people where they can make the greatest and earliest contributions.

competence to handle anything Riegel has ever asked her to do.

A reasonable question is, "What if these two, and others who have moved up to heavy responsibility from entry-level jobs, had not been recognized as management material?" Another important question is, "What if they had been so identified, but placed in a formal management program not attuned to their need to be challenged?" No matter how well any company develops talent in specific cases, it is impossible to be sure there are not offsetting failures. Riegel has its share of well-documented instances in which some factor was not right, and promise was therefore not realized. The company doesn't agonize over them, but it does try to learn from them.

With the increased emphasis on post high school and graduate study, it is ever less likely that a future Vice-President will come to Riegel straight from high school graduation . . . but the company may still see that young man or woman as a Career Day guest or as a summer employee working to earn money for school. In such cases, the company has an early opportunity to establish a continuing relationship in which lines of communication can be kept open. To the extent that Riegel recognizes promise, whatever the circumstances in which it meets it, it is rewarded by executive reserve strength on down the line. However, it is not easy. As another Riegel Personnel Director, Bryan Lyndon of La France, candidly puts it:

> You have thirty minutes during a campus interview to size up a person and, if he or she is whom you need, make a strong, clear impression that Riegel could be that person's answer. Sometimes it's not all that simple to stay alert . . . they begin to run together in your mind. But then a student comes along who sort of turns the table around and interviews you. You see flair and growth potential and style that tell you this is whom you came seeking. And that's when it gets interesting.

As is evident, Bryan Lyndon, Gerald Burgess, and other Division Personnel Directors are now personally involved as members of a campus visiting team headed by Dr. James E. Bostic, Jr. of Riegel's Greenville Executive Offices, in the search for management talent, but this has not always been the company's approach, nor is the shift to division direction total. Despite increased participation of divisions in the search-and-employ process, Dr. Bostic's role, and that of Jane Greer who has ultimate staff responsibility for recruitment, reflect continuing corporate-level guidance.

Historically, Riegel has been a pioneer in campus recruiting. Convinced early that, instead of bidding with other companies for senior executives, it ought to find and grow its own, Riegel has never changed its mind. This means that it fills a high proportion of positions beyond the entry level from its own ranks, and that, in turn, gives upwardly mobile people an additional good reason for staying with the company.

Riegel's earliest effort to build a pool of rising young executives was at the corporate level. This was in the '40s and '50s before decentralization had set the stage for action by divisions, and resistance from within occasionally sorely tested the pioneering effort of Riegel recruiters. Some of the same arguments are still heard from time to time: "We'll lose too many to make the effort worthwhile," or "We're better off with people who have already bounced once or twice." Such early successes as were registered (involving, in some cases, people who have remained with Riegel to the company's great advantage to this day) were possible, not only because of the relative control over the recruiting process that lay with the company's corporate management group at that time, but also because Riegel's then Chief Executive Officer, William E. Reid, strongly endorsed the effort. It was understood by everyone that he was counting on their investment of time and effort to pay off, and that meant that it had better do just that!

As Riegel set about training and evaluating the progress made by those recruited, it quickly learned that college records can be misleading. There tended to be little correlation between grades on transcripts from some schools, and tests administered by Riegel. In other cases — Miami of Ohio and Davidson come to mind — there was close correlation. Graduates of the latter such schools received careful consideration because they could be viewed as "a known product." However, in the early years, technical schools and textile schools were more heavily recruited than the liberal arts colleges. Then, as now, Riegel was aware that training cannot make up for failures in selection. **Good training is vital, but starting with the right people is the most important single factor in success.**

During the late '50s and early '60s, Riegel's recruiting stance changed somewhat. There was still strong corporate guidance, but now there was also stress on developing comparable insight into the company's needs at the division level — a natural outcome of increased division accountability. There was now more willingness, too, to work with those job candidates who faced probable military service by developing relationships before the fact, and looking hopefully to the individual's decision to return to Riegel after service. This pattern was, of course, related to greater competition for desirable individuals as the company moved from a buyer's to a seller's market. Initially, the military had been Riegel's principal competitor as it sought to attract and/or hold onto capable individuals, but now other companies were strongly "courting" the same people Riegel was. On many campuses, the time Riegel recruiters scheduled interviews was a matter of being there when they could be accommodated. Students who talked with them might already have had two or three tentative offers from other concerns.

Nevertheless, Riegel did a pretty good job of finding people who met its needs. Through most of the '50s, its holding rate hovered around 60 percent. This was partly because rapid growth was allowing it to move "good guys" up quickly. In the late '60s, Riegel experienced a period of slower growth for a number of reasons, and the company lost some people it would gladly have kept. Riegel tried to be philosophical: it could understand that what was happening certainly did not invalidate its basic selection and orientation efforts.

It should be noted, however, that, at that time, Riegel's training was still formal, structured, corporate-guided, and extended as to length. It could take up to two years before the marketing people the company was increasingly after were put in place. In other words, Riegel was less concerned over not being able to move people up quickly than it otherwise would have been because that necessity was not really at odds with its own inclination. Of course, it is easy to see, looking back, that there is only so much an individual can observe without finding the process boring. Particularly in the case of fast-track people who had not been so identified, standard training timeframes were tedious, and the continuing degree of control of training procedure at the corporate level made content somewhat less relevant to daily activities than the company now seeks to make it.

The early '70s brought winds of change as Riegel's recruiting approach moved markedly toward division initiative, even though several difficulties were inherent in this shift. With a number of people serving as part-time recruiters, expertise was not as readily developed as it had been with a single full-time corporate recruiter in direct touch with the top management team. Also, the thrust of recruiting was less easily tilted to assure such outcomes as appropriate numbers of Blacks and women among those recruited, or contacts with more schools or particular schools. There were, however, benefits. The respective divisions knew their needs more precisely than the best of recruiters once removed from their manufacturing and marketing situation, and they very possibly also felt more responsibility for the track records of the people they themselves had located.

Training also went strongly divisional at the same time, and in the process, it lost its formal, lock-step dimension. Now, instead of ending when a certain number of assignments had been completed, it ended — in the sense of preceding productive employment — when the individual was judged ready for "real work"; and it involved earlier measurable responsibility with performance critique as part of the learning process. Nevertheless, corporate input and contact were retained as an increased number and range of learning/maturing activities were put in place. Further, participants in these activities were not necessarily limited to newcomers. The resulting mix of new and relatively "oldtimer" employees melded the management team in beneficial ways. It also had the effect of shifting emphasis from training as a preliminary, to training as a concomitant, experience . . . a periodic renewal and reexamination of understandings that was not necessarily put behind one just because he or she had progressed to responsible work in keeping with his or her education.

PROGRAMS

Specific programs that can be used as modules in preparing individuals for better performance include those discussed below. All of these are directed, in one way or another, toward broader understanding of the participant's role in the total management process and deeper sensitivity toward the human, technical, and economic environments in which he or she must function.

ELM (Entry-Level Management Training)

This program is open to people who wish to be trained for their initial experience in management at Riegel, and who are judged ready and able to benefit from that experience. While planned particularly to prepare hourly-paid people for supervisory responsibility, ELM also introduces college recruits to Riegel management methods, and may, therefore, be a valuable part of their indoctrination as well.

EFLM (Excellence for First-Line Managers)

EFLM is a new 14-hour series of development activities designed to meet the needs of first-line managers. By combining the latest knowledge and techniques of people management, as well as capital, equipment, and energy management, and gearing this input to first-line management, Riegel is striving to upgrade what is probably the most critical and difficult management position in any company. Every first-line manager at Riegel will be required to complete this course.

RAMS (Riegel Advancing Management Seminars)

These seminars are intended to acquaint the newcomer to Riegel (or the individual entering management from prior nonsupervisory work) with other Riegel managers from all divisions, and to involve him or her in the application of sound management principles to practical problems. One obvious benefit is a broader understanding of the way the individual's contribution fits into the total operation of the company. According to La France's Bryan Lyndon, this three-day session benefits "a recent college graduate, a shift manager, a department head — anybody in the management chain."

ODG (Organization Development Group)

ODG is a year-long series of quarterly three-day sessions bringing new and advancing management people into direct contact with key managers. ODG is a task force approach to learning that involves meaningful assignments that permit the participant to contribute as well as to learn. It reflects Riegel's feeling that, while much is to be gained from specific outside learning experiences (to which Riegel people are sent from time to time),

Preparation for a session of a Riegel Textile Corporation Organization Development Group (ODG) brought Dohnie James (r.) of La France Division into a working relationship with Joseph T. Allmon, Riegel Corporate Vice-President, when this picture was made in 1976. Allmon, who joined Riegel in 1951 as Assistant to its Director of Industrial Relations, has been directly involved ever since with personnel recruitment and training. James, an Accounting graduate of the two-year associate degree program at Greenville Technical College, came to Riegel as a Bookkeeper at Ware Shoals, South Carolina, in 1974. He moved to the La France Division as Cost Accountant, and has since entered manufacturing, moving through a series of training experiences to his present position as Shift Manager at La France, South Carolina, Weaving Plant.

investment in management seminars tuned precisely to the company's requirements, is worth making.

AODG (Advanced Organization Development Group)

This program was begun in 1974 as a sort of "post-graduate" series of quarterly gatherings for managers already seasoned by ODG and with considerable on-the-job experience as Riegel administrators. AODG draws on personal strengths to Riegel's, as well as the individual's, advantage. While themes are developed for study and discussion by staff leaders and outside consultants, the maturity of group members is recognized by a structure free enough for their responses to shape the ongoing nature of a given group, from session to session. Thus, a year ago, when the first session of a new Advanced Organization Development Group led to a request for further briefing in the area of economics, two University of South Carolina Economics Department members were asked to direct the group's second series of meetings and discussions.

IN OTHER WORDS . . .

A summary of Riegel's current recruiting and management practices now seems in order. Involved are three corporate staff members, Vice-Presidents Jane H. Greer, this author, and Dr. James E. Bostic, Jr., who also has regulatory, technical, and certain other personnel responsibilities. Other corporate level people may be brought into the process from time to time, but overall responsibility lies with Ms. Greer, direct responsibility for trainee recruitment with Dr. Bostic, and executive search for such experienced managers as Riegel may periodically seek outside its own ranks with this author.

Dr. Bostic normally meets three times a year — sometimes more frequently — with division Personnel Directors who will pay the bulk of campus visits. The first meeting is in June, to organize and plan the best means of meeting identified recruiting needs. The second is in October, with the purpose of implementing and reporting progress. The third is in March, to follow up and deal with any changing needs.

The division Personnel Director functioning as recruiter ordinarily visits the same schools yearly in order to develop ongoing relationships. He or she has first shot at promising people contacted during interviews at those schools, as well as continuing responsibility for listening and evaluating through the eyes of other divisions. Job candidates will be interviewed by corporate staff members also before a firm offer is made, and offers will be cleared if the candidate is talking with more than one division so that divisions do not bid against each other salarywise. The recruiter selects people for his or her own division knowing that he or she will play a major part in preparing any newcomers for effective performance there. Promising individuals not fitting a particular division's current needs are referred to other divisions when a need for their skills is known to exist elsewhere. Should a candidate interested in Riegel seem too good to pass up even though he or she does not fit current recruiting needs, the corporate member of the team is notified and consideration is given to developing a job opening specifically to fit that person.

Other functions of the corporate coordinator include discussing candidates with individual recruiters and/or the team as a whole; serving as a contact between potential recruits and a division other than the one making initial contact; serving as a clearing house on terms of entry offer(s); arranging any additional corporate-level interviews or contacts regarding entry through possible corporate staff positions; and communicating corporate concurrence or nonconcurrence in job offers.

Today's approach to executive training at Riegel can be described as individualized, as rapidly-paced as the person can handle, and covering all bases, from Riegel management beliefs and philosophy and general familiarity with all company policies and operations, to a variety of work experiences, including some that are related to, but outside of, the employee's anticipated job target area.

An excellent example of the latter is a program developed by David Harrison, Corporate Director of Training, Productivity, and Quality, during the past year. Its title, "Industrial Engineering for Non-I.E. Managers," makes the purpose of the new three-day seminars clear. Held at Tri-County TEC near Pendleton, South Carolina, and developed with the assistance of TEC staff members, the program is now a basic module in the indoctrination of all Riegel managers. ("Even if the person joining us comes with industrial engineering credentials," observes Bryan Lyndon, "he or she still needs to know what Riegel's approach to industrial engineering is.") Initially held weekly, with managers being flown in from all over the country to participate, the course has now moved to a monthly base since the backlog of those not yet exposed to it has been eliminated.

Just as training is no longer viewed as necessarily preceding productive participation in production management activities, so evaluation is not a process with definite termination. ELM, for example, has as a central component approximately six weeks of programmed learning indoctrination aimed at presenting corporate managment strategy to advancing members of the management team. Benefit from that exposure, however, is expected to be integrated with other experiences and to enter into judgments made thereafter. In the same way, evaluation is expected to involve clear, two-way communication, with close attention to what the individual perceives as his or her goals and problems, opportunities, and frustrations.

Evaluation at Riegel includes semiannual assessment with a plan for the development of each individual; three (as a minimum) in-house training experiences at the division level; a chance to participate in corporate training experiences; and counseling and continuing review of performance. The last aspect involves quarterly meetings with each first-year employee by both the Plant Manager and the plant Personnel Director; a semiannual (or more frequent) review in the second year; and an open door thereafter, with formal review on an annual basis.

SUMMARY

In summary, recruiting, like any other corporate activity, is highly sensitive to the times in which it takes place. It is shaped by the economic conditions of the country and the company, the supply and demand factors where graduating students are concerned, the set of mind of the graduates, national goals and trade policies, and the extent to which government competes with business as a hirer.

From the beginning, Riegel has viewed selection as the single most important factor in the process of meeting management personnel needs, and it has in no way changed that view. It is not practical to attempt to impart, through training, qualities that were absent in the recruit, even though it is both practical and essential to reinforce and build on existing good aspects of the individual's education and attitude.

As for the optimum balance between on-the-job and off-the-job development, Riegel doesn't feel that it always achieves it. There is a very delicate balance here. Sometimes factors may be weighed one way and sometimes another, but it always takes that optimum balance — whatever it may be

Marshall Gaddy, Second Shift Manager — Preparation, recruited at Raleigh's N. C. State School of Textiles, watches as Gary Kennedy adjusts feed and draft at 1 of 40 new chute-fed cards at Riegel's Alto I plant, Alto, Georgia, where competent people and up-to-the-minute equipment help Riegel meet OSHA, as well as its own, Zero Defects standards.

— to bring a person up to where he or she should be by the best and quickest route. Good coaching on the job day to day is important, as are other enriching opportunities and related outside experiences. Seminars and special courses are part of it, but there has to be — as noted — a sound balance that brings the total experience into clear focus.

Riegel does feel strongly that "the faster the track, the better" is the answer where people of superior gifts are concerned. Such individuals identify themselves quickly by their performance, their inquiring minds, their capacity to absorb whatever is going on around them. Once a fast tracker has been spotted and given the opportunity to become everything he or she can, the company has something great going for it. It is also well to note, as a corollary, that no matter what original hopes and expectations may have existed, the person who shows no sign of blooming within five years won't.

Another thing to keep in mind is this: the opportunity to turn things to your company's advantage may come unexpectedly and once only. In such cases, they will pass unseized **unless recognized and acted upon then and there.** As an illustration, Wade Jones, now a Riegel division Sales Manager, was a job seeker enroute to an interview with another company when he happened to be seated on a plane next to William E. Reid, then Riegel's Chief Executive. A conversation developed. It was apparent to Reid that his company might be able to use Wade, and that what Riegel had to offer might be of interest to him. Reid said as much, answered some questions, and, on the strength of that chance encounter, gained an executive whose contribution is valued.

Finally, Riegel has learned that, unless effective recruitment and development are a high management priority — as they have been under past Riegel Chief Executive Officers and as they are for the present Chief Executive, Board Chairman Robert E. Coleman — there is no way things will work out as they should. With that support, however, there is an excellent chance they will.

Riegel Textile Corporation does not claim or feel that its management development system is now a perfected process, the final form of the art. It does give it very high priority. Riegel works at it daily in the context of its changing needs in a changing world. It therefore expects that, rather than remaining static, the recruiting and training program of which it is already proud is going to get better and better as everyone concerned continues to learn on the job.

The I.R.S. and the Marriage-Go-Round: A Review of the Marital Status Penalty Tax and Proposed Corrective Legislation

By William Elbert Jones and Al L. Hartgraves, Jr.*

A bias against married working couples has seemingly existed in the United States for a number of years, specifically in the Internal Revenue Service and the tax laws. This bias takes the form of increased aggregate taxes for certain married taxpayers above what they would pay if they could file as single taxpayers. Not all married taxpayers are penalized. Many actually save taxes because of the income splitting benefits of the tax tables for married persons filing jointly. The penalty is borne most by those working couples both members of which are in about the same income bracket. Consequently, by divorcing and continuing to live together, a married couple could save taxes without changing anything else.

Senator Mathias (R-Md.) and Representative Fenwick (R-N.J.), charging that the U.S. tax code gives working couples a cash bonus for living in sin, have proposed legislation to end the so-called marriage penalty.[1] The problem in writing such legislation is to make sure that correcting one bias does not create another. The existing tax bias against married couples is a product of Congress' attempt to remove the single taxpayer penalty that existed for many years. Unless carefully designed, a new law to correct the marriage penalty could restore the single's penalty or possibly even create other inequities. Perhaps Congress should even reconsider its predecessors' objectives with respect to taxing married and single persons. Historically, the tax law has aimed at taxing income based upon the concepts of progressivity, aggregation, and equity. That is, higher income should be taxed at progressively higher tax rates; family income is the aggregate income of the spouses; and the marital status should not create a tax penalty for any taxpayer. These are conflicting objectives which Senators Mathias and Fenwick are hoping to reconcile.

This article analyzes the currently existing marital status penalty through a series of illustrations. It also examines the proposed legislation directed at eliminating the penalty.

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*April 2, 1980, at the invitation of Rep. Millicent Fenwick, Dr. Hartgraves presented his analysis of the problem and proposed resolutions discussed in this article before The Ways and Means Committee of the U.S. House of Representatives.

[1] H.R. 3609, 96th Cong., 1st sess.

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MARRIAGE PENALTY ILLUSTRATED

The marriage penalty exists because of the relative structure of the tax rate schedules. For married persons filing jointly, the tax rate schedules were originally designed to provide an income splitting effect for those married couples in which either only one spouse was working or one of the spouses earned a substantially larger income than the other spouse. The result was that the income of the family unit was taxed as though it were earned equally by both taxpayers, and thus under the progressive rate structure the combined income of the couple was taxed at rates lower than those of a family unit consisting of one single taxpayer with an equal amount of total family income.

Under the system described above, single taxpayers argued that they were victims of discriminatory taxation, especially in those cases in which they were bearing the total cost of maintaining homes for themselves. They contended that since the cost of maintaining a home for two people was not as much as twice the cost for a single person, it was discriminatory to tax singles at a higher rate.

In an attempt to correct the inequity alleged by single taxpayers, Congress restructured the tax rate schedules and, essentially, reduced the taxes of single taxpayers, making the total tax bill to a single taxpayer somewhat less than one-half the total tax bill of a married couple filing jointly with taxable income twice that of the single person. The simultaneous effect of the change in the tax rates was to make divorce an attractive alternative to certain married couples. If the taxable income is distributed between the two working taxpayers, within a certain range, they would realize a tax savings by exercising the divorce alternative and filing as single taxpayers.

Assume Joe and Mary Taxpayer are married and have a combined taxable income of $30,000. If Joe is the only income earner, on a joint return their total taxes will be $6,238. If they terminate their marriage and file as single individuals, their total taxes will be $7,962, all of which will be taxed to Joe since Mary has no taxable income.[1] Therefore, Joe and Mary gain an advantage of $1,724 by remaining married and continuing to file jointly. To change the relative effects of the tax rate schedules, assume that the $30,000 of total income is earned equally by Joe and Mary. Under this assumption, on a joint return they will still pay $6,238 in total taxes. If they terminate their marriage and file separately, they will pay $2,605 each, or a total of $5,210, a savings of $1,028. For this couple with $30,000 of taxable income, the potential effects of the tax rate schedules (coupled with their decision pertaining to marriage) can vary from a disadvantage of $1,724 associated with the single taxpaying status to a disadvantage of $1,028 associated with the status of married filing jointly.

To complete the example, assume again that Joe and Mary have a combined taxable income of $30,000, with $24,353 attributable to Joe and $5,647 attributable to Mary. If they file jointly, their income tax will again be $6,238. If they terminate their marriage and file as single individuals, they will still pay a total of $6,238 in taxes ($5,700 by Joe and $538 by Mary).

The full range of possibilities for Joe and Mary is now clear: as long as Mary earns taxable income of no more than $5,647 of the $30,000 total taxable income, they are better off, from a tax standpoint, to remain married and to file jointly. If Mary's contribution to total taxable income exceeds $5,647, they will save taxes to file as single individuals. At $5,647 of taxable income for Mary, she and Joe should make their marriage decisions based on considerations other than the tax rate schedules, since there is no marriage penalty to be suffered or marriage advantage to be gained in the payment of their taxes. In the above example it is evident that, depending on the distribution of taxable income between the two taxpayers, there are actually two existing aspects to the marital status penalty — sometimes it favors marriage, sometimes it favors nonmarital cohabitation.

Exhibits A and B extend the above analysis to several selected income levels. Exhibit A shows for each income level the taxes and related marginal income tax rate for married persons filing jointly and the combined taxes and marginal rate for two single taxpayers, assuming each taxpayer earns one-half the total taxable income. The last column shows the difference between taxes for the married couple and the single couple.

Exhibit B presents the maximum potential penalty associated with the "married filing jointly" and "single" taxpaying statuses. Note that for the $30,000 income level the maximum potential advantages are the same as those discussed earlier in the Joe and Mary Taxpayer example. The last column in Exhibit B shows the break-even income distribution between the two taxpayers in those

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[1] All taxation computations are based on 1979 tax rate schedules as published in **Revenue Act of 1978**, Standard Federal Tax Reports, Extra Edition, no. 48 (Chicago: Commerce Clearing House, Inc., 1978), pp. 5-8.

EXHIBIT A. Comparison of Taxes and Marginal Tax Rates for Married Couples Filing Jointly and Unmarried Couples Filing as Singles

Combined Taxable Income[a]	Married Filing Jointly[b]	Marginal Tax Rate	Unmarried Filing as Singles[c]	Marginal Tax Rate	Difference
$ 10,000	$ 1,062	18%	$ 844	18%	$ 218
15,000	2,055	21	1,764	19	291
20,000	3,225	24	2,774	21	451
25,000	4,633	32	3,926	24	707
30,000	6,238	37	5,210	26	1,028
40,000	10,226	43	8,354	34	1,872
50,000	14,778	49	11,904	39	2,874
60,000	19,678	49	15,924	44	3,754
75,000	27,778	54	22,864	49	4,914
100,000	41,998	59	36,134	55	5,864
125,000	57,528	64	51,036	63	6,492
150,000	73,528	64	66,786	63	6,742
200,000	107,032	68	100,106	68	6,926
250,000	141,724	70	134,774	70	6,950

[a] Assumed to have been earned equally by filing parties.

[b] Total taxes for married couple.

[c] Combined taxes for singles couple.

instances in which there is no difference between the total taxes for married persons filing jointly and the total taxes for two single taxpayers. For example, the income level of $30,000 with a distribution of taxable income between the two taxpayers of $24,353 and $5,647 produces the same tax result whether they are married filing jointly or unmarried filing as singles. If the income distribution swings toward the higher income earner, the taxes are less for marrieds than for singles; if the income distribution swings toward the lower income earner, the taxes are less for singles than for marrieds.

Exhibit B. Maximum Marital Advantage and Break-Even Distribution for No Advantage

Combined Taxable Income	Maximum Potential Advantage		Break-Even Income Distribution[c]
	Married[a]	Single[b]	
$ 10,000	$ 325	$ 218	$ 8,447/$1,062
15,000	550	291	12,883/2,117
20,000	952	451	16,500/3,500
25,000	1,319	707	20,213/4,787
30,000	1,724	1,028	24,353/5,647
40,000	2,431	1,872	33,623/6,377
50,000	3,289	2,874	42,372/7,628
60,000	4,265	3,754	50,659/9,341
75,000	5,615	4,914	63,262/11,738
100,000	8,055	5,864	83,789/16,211
125,000	9,859	6,492	104,700/20,300
150,000	11,359	6,742	125,189/24,811
200,000	12,855	6,926	170,704/29,296
250,000	13,163	6,950	219,519/30,481

[a] Difference between taxes with one income earner computed on joint return and single returns.

[b] Difference between taxes with two equal income earners computed on joint return and single returns.

[c] The income distribution between married taxpayers and single taxpayer couples paying the same taxes.

Latest U.S. Census data show that 51 percent of all married couples have two working spouses and that, on the average, 77 percent of their income is earned by the husband and 23 percent is earned by the wife.[1] For the lower income earner, the break-even income for the various levels in Exhibit B ranges from about 11 percent at the $10,000 income level to a high of about 17 percent at the $150,000 income level. Thus, since the average lower income earner earns more than the break-even income, it can be concluded that a substantial percentage of all married persons are penalized by the structure of the current tax tables.[2] By examining marginal tax rates (see Exhibit A), it can be observed that the advantage associated with the taxpayer's marital status pertains primarily to income earned in the income range from about $20,000 to $110,000. Below $20,000 there is only a slight lag in the progression of single taxpayer rates behind that of married taxpayers. Beyond $20,000 of taxable income, however, the lag becomes greater and greater up to about $112,000 of taxable income when the marginal rates for both taxpayer groups become nearly the same.

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[1] U.S. Department of Commerce, Bureau of the Census, **Census of Population: 1970, Detailed Characteristics, Final Report PC (1)-D1, United States Summary,** pp. 679, 688, and 927.

[2] The Internal Revenue Service has estimated that more than half of all taxpayers are married; and that more than half the married taxpayers (or about 38 million) are two-earner couples.

The conclusion is clear: there is an existing marriage penalty (or, conversely, an incentive to nonmarriage) borne by most married working taxpayers in the U.S., and the penalty is concentrated in the income brackets in which most family incomes fall — the $20,000 to $110,000 range.

PROPOSED LEGISLATION

Currently, there are 2 prominent proposals among the 30 bills before Congress designed to address the marriage penalty problem. The first, which proposes to allow married couples a marriage exemption of $2,000, would provide partial relief to certain married taxpayers. This measure avoids the real issue, however, and would serve only to complicate the problem further, i.e., it would only elicit a responsive outcry from single taxpayers charging once again that the tax law is discriminatory.

The second proposal, the Mathias and Fenwick bill, simply, but effectively, addresses the fundamental problem by proposing to allow married taxpayers to pay taxes computed either on a joint return or (without divorcing) on a separate return using the single taxpayer rates. This would allow married taxpayers to compute their taxes both ways and to use the more favorable method. The maximum savings for married taxpayers would be the amount of the maximum advantage for singles in Exhibit B.

The Mathias-Fenwick bill does not propose to remove the implied penalty that remains on the books for single taxpayers. Certainly, by marrying a person with no income and filing jointly, a taxpayer would save taxes. This tax savings could be said to be the implied penalty of being single and, in fact, could be an incentive to marry for certain couples. This is actually the income splitting benefit given to married persons.

There seems to be less pressure both within and without Congress to remove the implied singles penalty. Any further relief to this group of taxpayers probably would require major modifications in the tax rate structure to deal with the fairness of the concept of income splitting from the position of the single taxpayer.

CONCLUDING REMARKS

Congress has created an unintended incentive for many working couples to save taxes by divorcing and filing as single individuals. In a society in which marriage is not always considered a requisite for long-term cohabitation by persons of the opposite sex, the tax savings may provide the final stimulus for such an arrangement. The authors of this article illustrate the pervasive effect of the marriage penalty and discuss proposed corrective legislation. Although strong support for such legislation can be found in the conservative camp, others (especially the Treasury Department) have expressed grave concern over the revenue loss effect of such legislation. Whatever action is taken, careful study of the effects must be made to prevent a shifting of inequities from one taxpaying group to another.

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Lexington County Savings & Loan Assoc.
The Liberty Corporation
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C. C. McGregor & Company
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Mutual Savings & Loan Association of Greenwood
National Bank of South Carolina
Oneita Knitting Mills
Owens-Corning Fiberglas Corp.
Peat, Marwick, Mitchell & Company
Pee Dee State Bank
Peoples Federal Savings & Loan Association
Price Waterhouse & Company
Reeves Brothers, Inc.
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The Management Bookshelf

By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

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BASICS OF SUCCESSFUL BUSINESS PLANNING

by William R. Osgood
AMACOM
135 W. 50th St.
New York, NY 10020
1980, 150 pp., $21.95

This book is designed to improve the manager's planning skills. It covers the entire planning process, from the creation of a plan through the selection of techniques for implementing it. Also included are charts, graphs, and a detailed sample plan.

WHAT'S BEHIND INFLATION AND HOW TO BEAT IT

by George Jackson Eder
Prentice-Hall, Inc.
Englewood Cliffs, NJ 07632
1979, 226 pp., $9.95

The author, a classical economist, places the blame for inflation on excessive government spending and an oversupply of paper money. He also demonstrates how the full truth of the gravity of the nation's economic problems is being obscured by misleading government statistics. His suggested solutions involve a return to the gold standard, removal of government controls, and a truly free market economy.

WORKING SMART: HOW TO ACCOMPLISH MORE IN HALF THE TIME

by Michael LeBoeuf
McGraw-Hill
1221 Ave. of the Americas
New York, NY 10020
1979, 232 pp., $8.95

The author of this book discusses the importance of improving both the manager's efficiency and his effectiveness. He defines efficiency as doing the job right and effectiveness as doing the right job. He also lists those factors that decrease work performance and suggests ways to deal with them.

AUDITING THE DATA PROCESSING FUNCTION

by Richard W. Lott
AMACOM
1980, 208 pp., $16.95

This book is a review of the EDP function for the general manager. It points out the problems associated with installing and using a computer, and shows how to avoid these problem areas through the use of cost effective auditing techniques.

JAPAN AS NUMBER ONE: LESSONS FOR AMERICA

by Ezra F. Vogel
Harvard University Press
79 Gorden St.
Cambridge, Mass. 02138
1979, 272 pp., $12.50

The author describes those parts of the Japanese system that are so efficient that America might learn from their example. He cautions, however, that when applying these Japanese techniques, the differences between the two cultures must be considered.

THE MANAGERS: CORPORATE LIFE IN AMERICA

by Diane Rothbard Margolis
William Morrow & Co., Inc.
105 Madison Ave.
New York, NY 10016
1979, 313 pp., $10.95

This controversial study is based on personal interviews with 81 employees of the same corporation. It shows how corporations can mold their managerial employees into conformity with the accepted corporate values and attitudes.

* * *

Readers are invited to submit titles of books that they wish to call to the attention of others.

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ITEMS	November 1979	November 1978	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 2,942	$ 2,792	+ 5.4
Demand	1,538	1,526	+ 0.8
Time	1,424	1,283	+11.0
Loans, Member Banks ($ millions)	2,113	2,020	+ 4.6
Savings in Savings and Loan Associations ($ millions)	5,059	4,674	+ 8.2
Sales and Use Tax Collections ($ thousands)	43,526.1	37,926.6	+14.8
Labor Market			
Civilian Labor Force (thousands)	1,326.6	1,297.6	+ 2.2
Employment	1,262.0	1,229.8	+ 2.6
Rate of Unemployment (percentage)	4.9	5.2	- 5.8
Nonfarm Wage and Salary Employment (in thousands)	1,169.9	1,146.0	+ 2.1
Manufacturing	390.5	392.3	- 0.5
Contract Construction	64.3	67.4	- 4.6
Transportation and Public Utilities	52.6	51.2	+ 2.7
Wholesale and Retail Trade	225.6	216.2	+ 4.3
Finance, Insurance, and Real Estate	46.9	44.5	+ 5.4
Services, Mining, and Miscellaneous	163.1	150.8	+ 8.2
Government	226.9	223.6	+ 1.5
Average Hourly Earnings, All Manufacturing (in dollars)	$ 5.29	$ 4.84	+ 9.3
Initial Unemployment Claims Filed in South Carolina	19,921	15,556	+28.1
Placements by South Carolina Employment Offices (nonagricultural)	5,942	5,582	+ 6.4
Indexes of Prices Received by Farmers (1966-68=100)			
All Farm Products	203	203	0
All Crops	216	218	- 0.9
Livestock and Products	209	202	+ 3.5
S.C. Parity Ratio	79	91	-13.2
New Motor Vehicle Registrations			
Cars	9,010	9,901	- 9.0
Trucks	2,661	3,194	-16.7

	November 1979	November 1978	First 11 Months 1979	First 11 Months 1978	Percentage Change
Valuation of Building Permits Issued ($ thousands)					
Total for all S.C. Counties	$119,723	$123,453	$1,701,678	$1,329,856	+28.0
Available County Data					
Aiken	8,334	3,718	60,035	42,743	+40.5
Berkeley	4,191	6,551	34,460	67,222	-48.7
Charleston	8,031	7,710	181,954	125,165	+45.4
Dorchester	6,051	9,586	48,248	36,896	+30.8
Lexington	5,738	3,146	78,705	61,814	+27.3
Richland	12,705	14,392	127,375	94,347	+35.0
Greenville	6,839	9,953	187,345	125,091	+49.8
Pickens	4,761	1,480	36,848	31,206	+18.1
Spartanburg	7,575	7,469	134,909	84,096	+60.4

*Less than one-half of 1 percent

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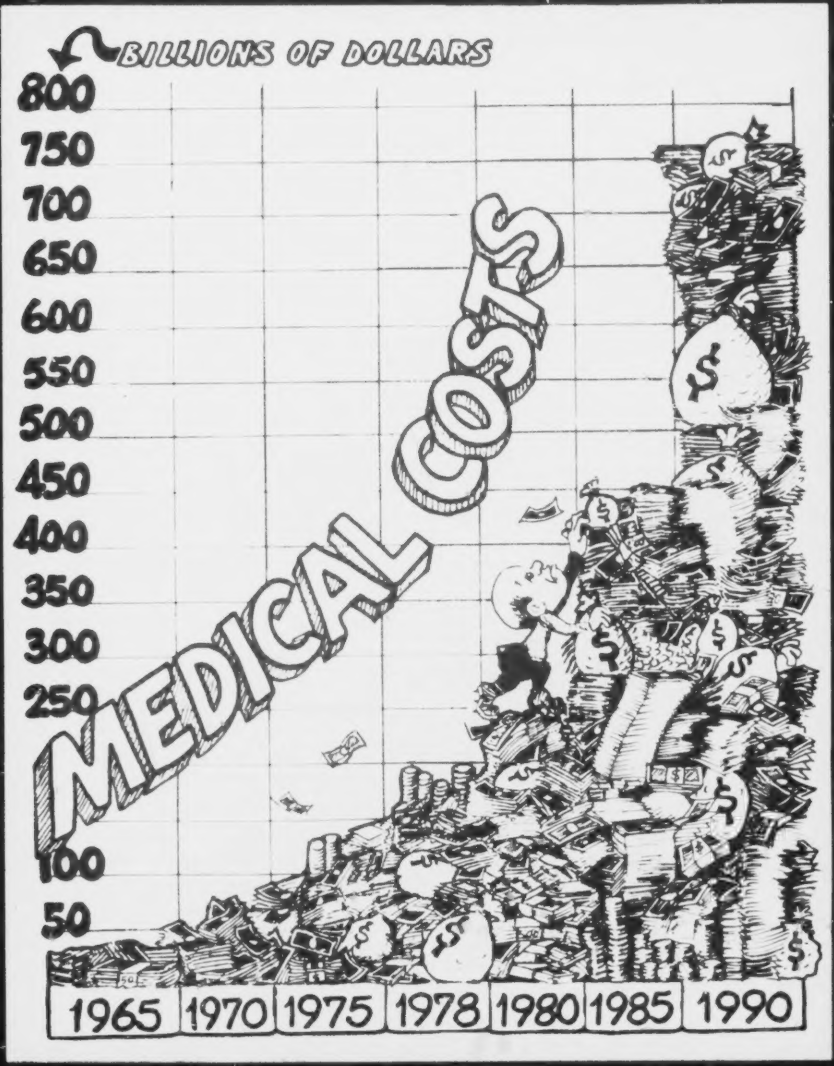
Financing the Health Care System


BILLIONS OF DOLLARS
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MEDICAL COSTS
1965
1970
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1978
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1985
1990

Volume XXVII, Number 1
October 1980

"Financing the Health Care System —
Alternatives for South Carolina —
An Overview"
by Richard W. Furst

"Financing the Health Care System —
Alternatives for South Carolina —
State Government"
by Virgil L. Conrad

"Financing the Health Care System —
Alternatives for South Carolina —
Hospitals"
by William Lentz Ivey

"Financing the Health Care System —
Alternatives for South Carolina —
Blue Cross and Blue Shield"
by Joseph F. Sullivan

"Financing the Health Care System —
Alternatives for South Carolina —
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by Louis A. Orsini

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Statistical Indicators of South
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Summary of Contents

3 **Financing the Health Care System — Alternatives for South Carolina — An Overview.** Dr. Richard W. Furst, Director of the Executive Graduate Program in Health Care Financial Management in The University of South Carolina's College of Business Administration, provides an overview of this issue's articles on "Financing the Health Care System — Alternatives for South Carolina," and identified the common threads that can be woven into the scenario that will form the future of health care financing.

7 **Financing the Health Care System — Alternatives for South Carolina — State Government.** Demands for more services from the South Carolina Department of Social Services continue to grow. In this article, Virgil L. Conrad, DSS Commissioner, discusses how he and his colleagues must try to make a few dollars go further.

17 **Financing the Health Care System — Alternatives for South Carolina — Hospitals.** William Lentz Ivey, President of Richland Memorial Hospital, suggests in this article that the cutback in government funds covering the medically indigent will pass an increasing proportion of these higher costs on to those patients whose bills are paid by private insurance companies. He warns against this potential caused by the current reimbursement system and urges that equitable reimbursement be established guaranteeing health care for all South Carolinians regardless of economic or social position.

21 **Financing the Health Care System — Alternatives for South Carolina — Blue Cross and Blue Shield.** Among his other comments on financing health care, Joseph F. Sullivan, President of Blue Cross and Blue Shield of South Carolina, makes a strong appeal here for the use of other delivery systems as opposed to the traditional stay in the hospital. Sullivan believes such an emphasis will reduce the need for future hospital beds in this state's health care system.

30 **Financing the Health Care System — Alternatives for South Carolina — Insurance.** Louis A. Orsini, Vice-President and Director of the Consumer and Professional Relations Division of the Health Insurance Association of America, says in his article that during the early part of the 1980's, there will be continued and more progressive experimentation with voluntary initiatives for cost containment. He believes, however, that these experiments will have limited impact and that during the decade increased pressure will mount in the business sector and elsewhere for stronger means of controlling rising hospital costs.

36 **Financing the Health Care System — Alternatives for South Carolina — Federal Government.** Dr. Phillip Jacobs thinks there's a good chance Congress will pass a bill setting up a national program to protect individuals and families from financial ruin due to a major illness. He reasons that the cost of such catastrophic coverage would add little to the cost of present health care services. He also thinks that more grandiose health schemes will not become a reality during the 1980's.

43 **The Management Bookshelf**, a regular feature in which Dwight Gardner, USC BA's Business Librarian, reviews books of interest to business practitioners.

44 **Statistical Indicators of South Carolina Business.** A regular feature, listing the latest available data.

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Articles submitted for consideration for publication should concern business and economics topics of interest to managers in the private or public sectors. All manuscripts should be 12-26 double-spaced, typewritten pages, in English. Graphs, mathematical and quantitative data, charts, and tables are acceptable. Authors should submit 2 copies of each manuscript plus a vita sheet and a photograph. Upon publication, 6 complimentary copies of the journal are sent to the authors, with additional copies available upon request. Manuscripts to be considered for publication should be sent to: James M. Black, Editor, **Business and Economic Review,** College of Business Administration, The University of South Carolina, Columbia, S.C. 29208.

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This month's cover: Total national health care expenditures for selected years 1965-1990 are depicted in this cartoon by Eddie Josey of USC's Instructional Services Center. (Source: Office of Research, Demonstrations, and Statistics, Health Care Financing Administration.)

Financing the Health Care System — Alternatives for South Carolina — An Overview

By Richard W. Furst

The purpose of this invitational symposium is to present several views on the financing of health care in South Carolina during the 1980's. The authors bring a wide range of experience and interests to focus on the subject. William Lentz Ivey, President of Richland Memorial Hospital, is the Chairman Elect of the South Carolina Hospital Association. Joseph F. Sullivan is President of Blue Cross and Blue Shield of South Carolina which will finance a major portion of health care in South Carolina in the 1980's. Commercial insurance companies also will write a large number of policies covering health care and hospital care. Louis A. Orsini is the Vice-President and Director of the Consumer and Professional Relations Division of the Health Insurance Association of America, a trade association for commercial insurance companies writing health care insurance policies. Virgil L. Conrad is Commissioner of the South Carolina Department of Social Services which administers the Medicaid program in South Carolina. Medicaid, with annual expenditures of over $200 million in 1980, provides various health care services for the indigent and long-term care for the elderly. Finally, Dr. Phillip Jacobs is an Associate Professor of Health Care Economics at The University of South Carolina and is currently on leave to conduct research at the National Center for Health Services Research in Maryland.

Dr. Richard W. Furst is Holder of the J. Henry Fellers Chair in Business Administration, Professor of Finance, and Director of the Executive Graduate Program in Health Care Financial Management in the College of Business Administration at the University of South Carolina. Dr. Furst, who earned his D.B.A. Degree in Finance at Washington University, has authored or coauthored articles, books, and papers. He has also served as a consultant to the South Carolina Hospital Association and to hospitals throughout the Southeast, and is a member of numerous committees and boards of organizations concerned with the financing of health care.

RISING COSTS OF HEALTH CARE

The amount of funds the nation spends on health care has increased dramatically in recent years. In Table 1, the total amount spent on health care is given in both the aggregate form and on a per capita basis, and is expressed as a percentage of Gross National Product. During 1978, the nation spent over $192.4 billion on health care which consisted of 9.1 percent of the Gross National Product. This amounted to $863 per person or

TABLE 1: National Health Expenditures per Calendar Year (aggregate and per capita)

Year	GNP	Amount (in billions)	Per Capita	Percentage of GNP
1929	$ 103.1	$ 3.6	$ 29.49	3.5%
1935	72.2	2.9	22.65	4.0
1940	99.7	4.0	29.62	4.0
1950	284.8	12.7	81.86	4.5
1955	398.0	17.7	105.38	4.4
1960	503.7	26.9	146.30	5.3
1965	688.1	43.0	217.42	6.2
1966	753.1	47.3	236.51	6.3
1967	796.3	52.7	260.35	6.6
1968	868.5	58.9	288.17	6.8
1969	935.5	66.2	320.70	7.1
1970	982.4	74.7	358.62	7.6
1971	1,063.4	82.8	393.09	7.8
1972	1,171.1	92.7	436.47	7.9
1973	1,306.6	102.3	478.38	7.8
1974	1,412.9	115.6	535.99	8.2
1975	1,528.8	131.5	604.57	8.6
1976	1,700.1	148.9	678.79	8.8
1977	1,887.2	170.0	768.77	9.0
1978	2,107.6*	192.4	863.01	9.1

Source: **Health Care Financing Review** (Summer 1979)
*Preliminary estimate.

approximately $3,500 for a family of four. The increase in 1978 represented a 13.2 percent increase over comparative figures for 1977.[1] It is estimated that the average family of four will spend over $4,500 on health care in 1980, and that by 1990, they will spend approximately $12,000.[2]

Hospital Care

The largest component of the total expenditures for health care is expenditures for hospital care. During 1978, the nation spent $76 billion on hospital care which amounted to a rate of increase of 11.9 percent over 1977. In 1978, the average cost per adjusted patient day in a community hospital in the United States was $194.34.[3]

Since 1974, the costs per day in community hospitals in the Southeast have remained below the national average with the exception of Florida which closely approximates the national average (see Table 2). In 1978, the cost per day in South Carolina was lower than it was in neighboring states. The cost of a day of care in South Carolina was slightly higher than the cost of a day of care in North Carolina in 1975, 1976, and 1977, although it was substantially below the cost per day in both Georgia and Florida.

The bottom line of the table provides the annual percentage increases for the five-year period. It is interesting to note that from 1974-1978, the rate of increase in costs per day in the United States was 71.1 percent. It is commonly argued that although the cost per day is less in the Southeastern states, the rate of increase is greater, and the cost per day in the Southeast is approaching the national average. The data in this table do not seem to support this conclusion. From 1974-1978, the rates of increase in South Carolina, North Carolina, and Georgia were less than the national average, although the rate of increase in Florida was slightly above the national figure.

TABLE 2: Cost per Adjusted Patient Day in Community Hospitals, 1974-1978

Year	United States	South Carolina	North Carolina	Georgia	Florida
1974	$113.55	$ 86.45	$ 88.18	$102.57	$113.13
1975	133.81	101.75	100.97	121.82	136.85
1976	152.76	115.60	114.39	137.54	155.89
1977	173.98	135.26	130.79	153.89	176.73
1978	194.34	147.05	150.43	175.28	194.53
Percentage Increase 1974-1978	71.1%	70.1%	70.5%	70.9%	71.9%

Source: Various issues of **Hospital Statistics** published by the American Hospital Association.

OUTLOOK FOR THE 1980'S

The cost of health care in South Carolina will continue to rise during the 1980's reflecting both demand-pull and cost-push inflation. There are rural portions of this state where residents still receive less than adequate health care services. In addition, there is a segment of the population that is not covered by private insurance and yet does not qualify for coverage by one of the publicly funded programs. During the 1980's, health care services for these groups must be provided, and means of financing these services will have to be developed. During the 1980's, the population of South Carolina will continue to grow and rising personal income will reflect increased industrialization. This population growth and increased per capita income will place greater demand on health care providers. In addition, there are already long lists of elderly citizens waiting to be placed in nursing homes. As the population continues to grow older, the number of citizens seeking nursing home care will continue to increase. All of these factors, as well as many others, will cause an increased demand for services and will, therefore, cause higher health care costs during the 1980's.

Medical technology will continue to advance during the 1980's, and the costs of this new technology will be passed on to the users of the health care services. During the 1980's, numerous major hospital construction projects will be completed, and the opening of these new facilities will place added pressures on hospital costs. The present nursing shortage and attempts at unionization at several hospitals may place still further pressures on personnel costs, and the costs of utilities, food, and supplies will continue to rise as a reflection of inflation in the general economy.

While all these factors indicate that the costs of health services will continue to rise rapidly, the ability to finance these expenditures will be limited. Government sponsored programs spent over $65 billion and provided approximately 30 percent of personal health care expenditures during

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[1] Robert M. Gibson, "National Health Expenditures 1978," **Health Care Financing Review** (Summer 1979): 1-35.

[2] Mark Freeland, George Calat, and Carol Ellen Schendler, "Projections of Health Care Expenditures 1980, 1985 and 1990," **Health Care Financing Review** (Winter 1980): 11.

[3] American Hospital Association, **Hospital Statistics — 1979 Edition** (Chicago: American Hospital Association, 1979), pp. 20 and 21.

1978. Federal funds provided $46.5 billion or roughly two-thirds of this total while state and local governments contributed the remaining $18.5 billion. While spending by all branches of government has increased dramatically in recent years, spending by the Federal Government has increased at a much faster rate than spending by state and local governments. While spending by state and local governments increased from $4 billion in 1965 to $18.5 billion in 1980, Federal spending was increasing from just under $4 billion to over $46 billion. In 1978, Federal spending increased over $5.4 billion which amounted to a 13.2 percent increase over 1977, and is greater than the total amount spent in 1965![3]

With the increased conservative mood of the nation and the renewed interest in defense spending, there are indications that the public funds available to finance the health care system may not be sufficient to meet the demand created by government sponsored programs. This, in fact, already occurs with the result that the costs of providing services to those eligible for government programs that are not covered by these funds are passed on to the other users of the system. This situation may become critical during the 1980's.

The dual problem of rapidly increasing costs and limited availability of funds poses some very real problems for those interested in the financing of the health care system during the 1980's. In the series of articles in this issue of the **Business and Economic Review**, various spokesmen for the health care system discuss the critical issues facing them during the 1980's and present some possible solutions. Not one of the authors, however, even hints that he knows all the answers to the numerous problems, but they do provide interesting insights. Each author was also asked to pay particular attention to the hospital sector since this is the largest component of the overall system.

VIRGIL L. CONRAD

Virgil L. Conrad, Commissioner of the South Carolina Department of Social Services, presents the dilemma his agency faces in a straightforward manner. After discussing a number of popular short-range proposals, Conrad calls for better planning, with input from all sectors of the industry. He feels that a long-term program based on strong fundamental principles must be developed and that the short-term stopgap approaches will only lead to higher costs in the future.

WILLIAM LENTZ IVEY

William Lentz Ivey, President of Richland Memorial Hospital, makes a number of interesting forecasts regarding the general future of health care. Ivey's primary concern is the possibility of the development of a dual hospital and health care system. Because of the cutback in the amount of funds from government sponsored programs, he foresees a possibility that many South Carolina hospitals, especially urban hospitals, will become low quality, minimum service institutions for the nation's poor and lower income people. At the same time, a higher quality system may be developed for the rich and near rich. Ivey warns against this potential caused by the current reimbursement system and urges that equitable reimbursement be established that will guarantee quality health care for all of this state's citizens, regardless of their economic or social position.

JOSEPH F. SULLIVAN

Joseph F. Sullivan, President of Blue Cross and Blue Shield of South Carolina, feels that the two major ingredients now missing in the health care system that need to be developed during the 1980's to avoid massive Federal regulation are better health planning and public accountability on the part of all those involved in the delivery of health care services. He believes that it is only through the intelligent development of the system, better planning, and wise use of the system by a more knowledgeable and informed public, that a strong cost effective system can emerge.

LOUIS A. ORSINI

In looking ahead into the 1980's, Louis A. Orsini, Vice-President and Director of the Consumer and Professional Relations Division of the Health Insurance Association of America, takes the position that for the time being the health care industry will be able to fend off any Federal move toward massive regulation of the financing of health care. Orsini argues that, in the meantime, state rate review systems that review hospital budgets and approve rates will continue to improve and evolve and reach new levels of sophistication and effectiveness. He believes the pinch will come in the second half of the decade as severe cost shifting by the Federal Government places a higher and higher portion of the total cost in the private sector and as management and labor find that they are no longer willing or able to absorb this shift in cost. At that point, he feels they will join those arguing for controls over health care costs, and that the state option will be much more acceptable to the numerous parties involved in the health care system than is the option of Federal controls.

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[3] Gibson, "National Health," p. 32

PHILLIP JACOBS

A national program to protect individuals and families from financial ruin due to a major illness may be passed during the 1980's, according to Dr. Phillip Jacobs, a member of the Health Care Economics faculty in USC's College of Business Administration. Since the probability of incurring an illness of this magnitude is small, Dr. Jacobs concludes that the inclusion of catastrophic coverage would add little to the demand for health care services, and existing supply would probably be able to react to meet any increased demands.

SUMMARY

Throughout the articles discussed above, some common threads seem to emerge. These can be woven into the pattern below.

1. The costs of health care on a national basis will continue to increase during the 1980's.
2. The costs of health care may increase more rapidly in South Carolina than in other parts of the nation.
3. The current financing system may be one of the contributors to the rapid rate of increase of health care costs.
4. Massive intervention by the Federal Government in the financing of health care is not politically feasible at this time.
5. A new method of financing the system needs to be developed in order to avoid Federal intervention in the future. This new system must
   - a. assure that all citizens of South Carolina receive adequate health care, regardless of their economic or social status;
   - b. assure that all users of the system pay for their own care, and that one group does not subsidize others; and
   - c. provide incentives to improve efficiences within the system.

The College of Business Administration at the University of South Carolina is pleased to present this symposium as a means of initiating increased dialogue between business leaders, labor, the general public, and all those involved in the delivery and financing of health care services. Furthermore, this institution is ready to commit its resources to the continued debate and ultimate resolution of the issues.

Our November Issue Will Feature . . .

South Carolina State Ports Authority: The Palmetto State's Doorway to Foreign Trade. The Port of Charleston has become a force to be reckoned with in the shipping world. Its impressive growth results from many factors: productive dock workers, a dedicated professional staff, state government support, an expert maritime community, and a conscientious Governing Board of unusual economic insight. In this informative article, W. Don Welch, Executive Director of the South Carolina State Ports Authority, will give the reader a close-up view of the Palmetto State's Ports Authority and how it is growing.

Reaching Employees: Communications Is Caring. Good management is based on good communications, and good communications, according to Marshall Doswell, Vice-President-Corporate Communications for Springs Mills, Inc., is "caring." Springs Mills has an enviable record in employee relations, and in this insightful article, the third offering in the *Business and Economic Review*'s industrial series, Doswell will give a number of ideas practiced at his company that explain why.

Foreign Direct Investments in South Carolina: An Interview with Bayer AG's Gerhard Dittmar. Dr. Robert J. Kühne, Director of USC's Master in International Business Studies Program, will interview Dr. Gerhard Dittmar of Bayer AG concerning what his company looks for before locating its operations in South Carolina. Dr. Dittmar, who is in charge of Bayer AG's North American operations, will emphasize the importance of the free market system as a reason for foreign investment in the United States.

The Employer and Employment Laws, a regular feature by James J. Baldwin, Partner in the law firm of Haynsworth, Baldwin and Miles. In next month's column, **Recent Developments Expand EEOC**

(Continued on page 35)

Financing the Health Care System — Alternatives for South Carolina — State Government

By Virgil L. Conrad

To no one's surprise health care costs have risen dramatically over the last several years. This has been true both for services that are publicly funded and those that are privately funded. Publicly funded health care expenditures have increased at an even greater rate than other government expenditures. South Carolina has deviated from the national norm only by exceeding the national growth rate (Chart #1). The South Carolina state dollars supporting the Medicaid program increased from 1 percent of the state's budget in 1970 to 3 percent in 1978 (Chart #2). The growth in health care costs is illustrated below.

TABLE 1. Health Care Costs

U. S. Health Care Costs	
1950	$ 12.0 billion
1970	69.2 billion
1978	178.2 billion
U. S. Medicaid/Medicare Costs	
1970	$ 11.8 billion
1978	43.7 billion*

*Estimated

What accounted for this growth? Medicaid is a fairly new Federal program. Legislation establishing this program was first enacted in 1965 (P.L. 89-97). As with most new programs, the first few years represent a period of enrollment for eligible citizens. Until 1975, the number of persons eligible for this program grew rapidly (Chart #3). During this period, the increase in costs paralleled the increase in persons determined eligible to receive services. All areas of Medicaid expenditures experienced dramatic increases throughout the 1970's. The area showing the fastest rate of growth changed from community and hospital services in the early 1970's to long-term care in the latter part of the decade. This change was probably largely due to the Federalization of the aged, blind, and disabled programs under the SSI (Supplemental Security Income) program, and to an increasing percentage of the population over the age of 65. A few statistics will show this shift of emphasis.

Virgil L. Conrad is Commissioner of the South Carolina Department of Social Services (DSS). A graduate of Alderson-Broaddus College and West Virginia University, Conrad holds a B.A. Degree and a Masters of Public Administration Degree. A former Adjunct Professor at the West Virginia University College of Arts and Sciences, he has served in the social work field for 16 years. As a consultant, Conrad has assisted the Case Western Reserve University of Cleveland, Ohio, in developing a curriculum for a public welfare specialization, and John A. Yankey and Associates in developing a case management system for the Cuyahoga County (Ohio) Department of Welfare.

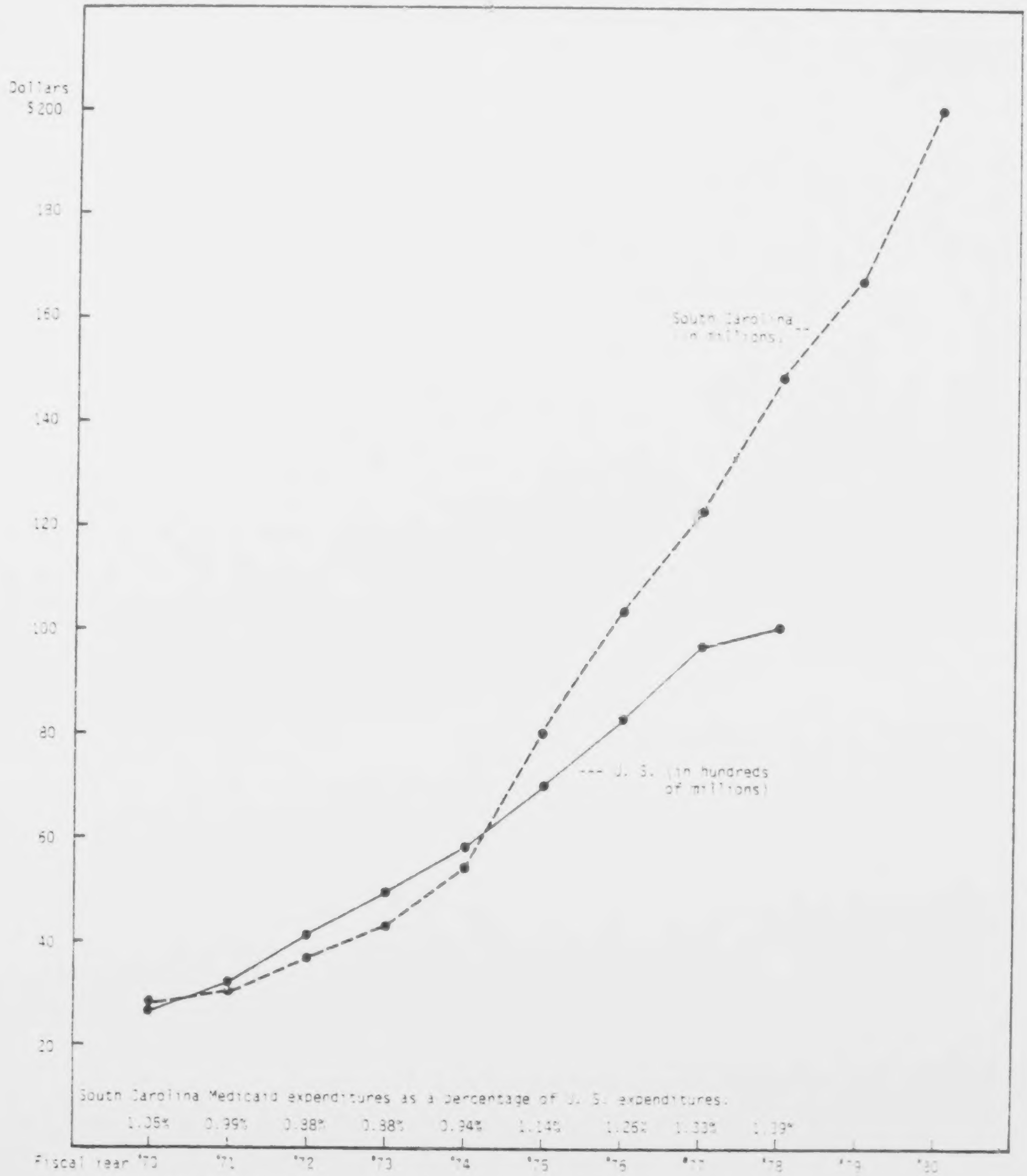
TABLE 2. Medicaid Expenditure Increases

Dates	Total Medicaid Increases	Increases in Long-Term Care	Increases in Hospital and Community Services
From FY '70 to FY '74	97%	56%	131%
From FY '74 to FY '79	205%	236%	186%

Charts #4, #5, and #6 illustrate the same point in a different manner. They show that from FY '70 to FY '74 community and hospital costs increased as a percentage of the total Medicaid budget, and that from FY '74 to FY '79 long-term care costs increased as a percentage of the total Medicaid budget. It is now projected that the Medicaid program in South Carolina, as presently defined, will cost $800 million by 1990, four times its present cost (Chart #7).

Inflation has played a major role in increased Medicaid expenditures (Chart #8). The consumer price index for medical care has virtually doubled

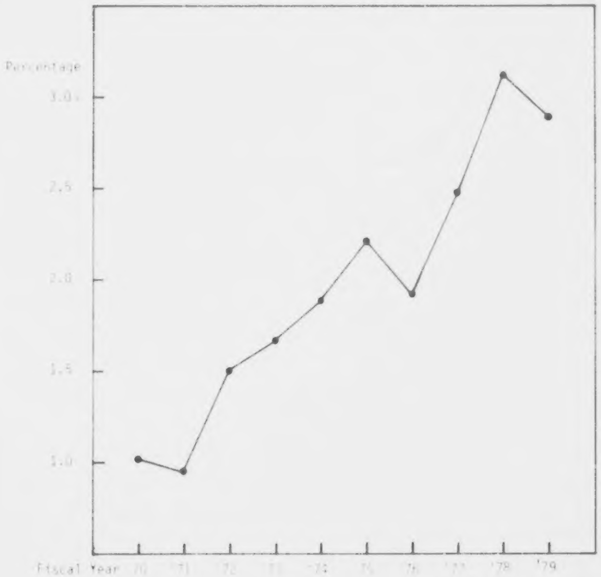
CHART 1: Comparison of South Carolina and U.S. Expenditures for Medicaid



Prepared by Statistical Analysis & Reporting NL

between FY '70 and FY '79. One of the factors reflected in the consumer price index, personnel costs, makes up a major percentage of health care costs. For example, in long-term care facilities, 54 percent of the cost of the service is personnel cost. For the last several years, the minimum wage has escalated from the Federal level to mirror inflation. As long as this is true, state level cost containment efforts can have only limited effectiveness. One other factor in increased cost is the increase in utilization by Medicaid eligibles. Since the start of the SSI program in FY '74, not only has the number of aged, blind, and disabled eligibles increased, but the utilization rate of these eligibles also has increased from about 50 percent per month in FY '74 to 75 percent per month in FY '79.

CHART 2: State Legislative Appropriations for Medicaid as a Percentage of the Total State Budget*



*Only state funds are considered, not matching funds. State funds included supplemental appropriations, but not carry forward funds.

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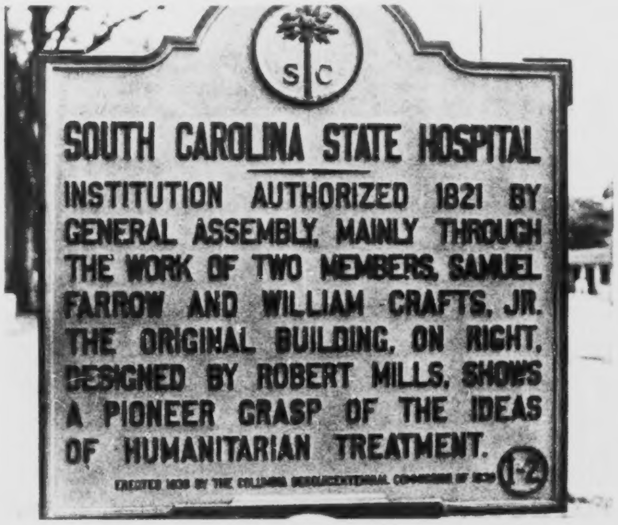
To some extent Medicaid and Medicare may have produced their own inflation. Since the consumer of Medicaid services does not participate in the cost of the mandatory services, he has no reason to scrutinize excessive costs or unnecessary procedures and tests. Also, the increased utilization rates have put pressure on the demand side of the equation and this, too, leads to higher rates.

What do projections of a quadrupled cost for the Medicaid program by 1990 indicate for South Carolina? The overriding impact, already developing by the late 1970's, is increased scrutiny of the program. When the program didn't cost much, not many people paid a lot of attention to it. That's changing, though, and now everyone wants to look at the program. From the Federal level, there will be more emphasis on quality control. For the first time, efforts are being made to define acceptable control standards of states by applying fiscal sanctions. Incentives are also being provided, through the availability of more Federal funds for fraud detection and favorable matching rates for the establishment of independent investigation units. Another impact has been the way South Carolina's program has been funded for the past several years.

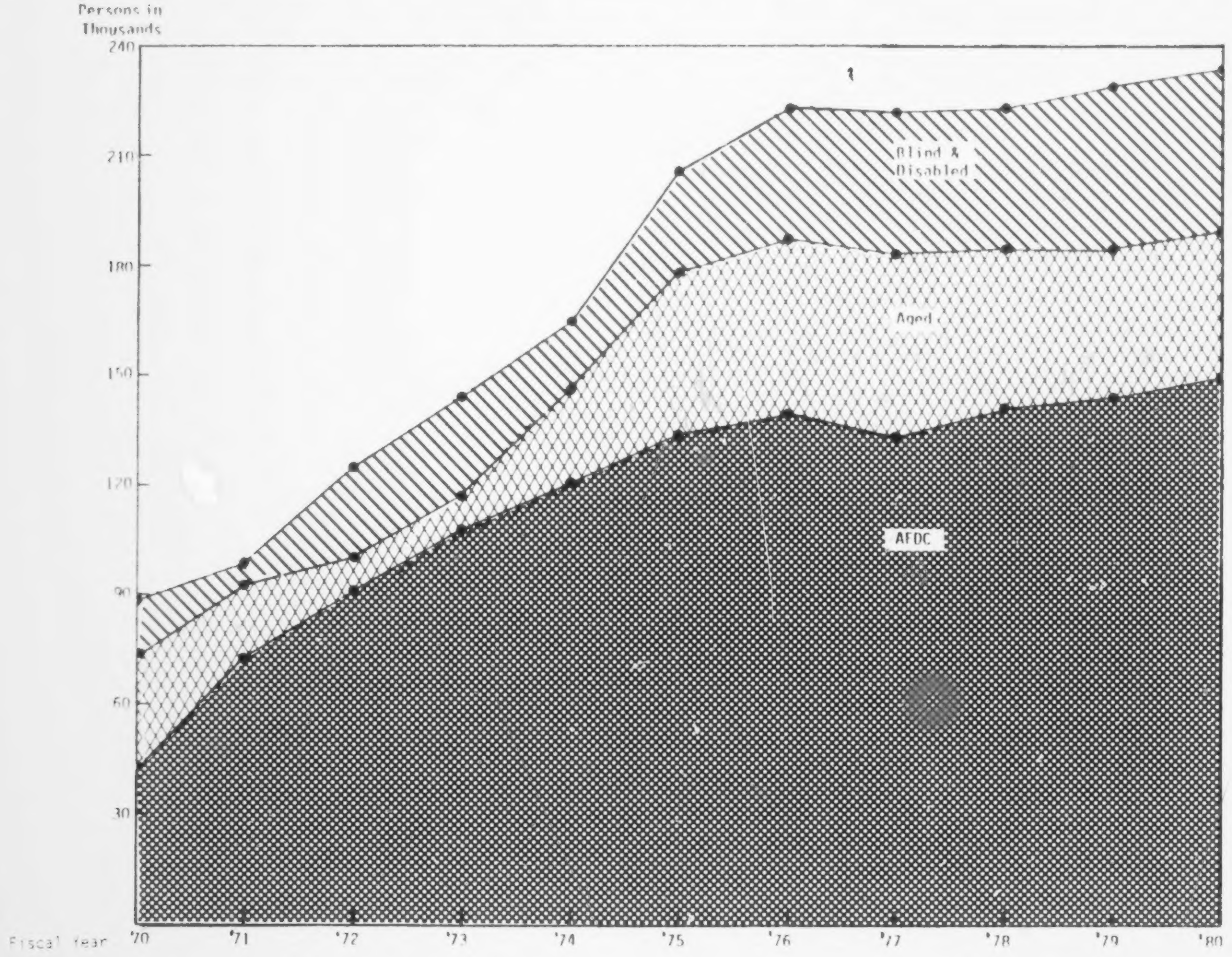
It has been difficult for the public and for the legislative and administrative branches of government to cope with the rapidly increasing costs. It is instructive to consider the interaction between DSS and the state legislature with respect to the Medicaid budget. In response to the rapid growth of costs, the legislature has deficit funded the Medicaid program. The funding issues have then been resolved after the fact through a supplemental appropriation.

For both political and humanitarian reasons the Medicaid budget is very difficult to reduce or control. It will certainly require careful planning and foresight. Methods of cost control should not be selected in the heat of an impending budget crunch, but planning must begin. The economic well-being of the state and the nation indicate that it may not be so easy for the Legislature to come up with supplemental appropriations in the future. Several points should be considered here. First, any cut will be painful to some group of persons, especially if they are now receiving services. Second, a cut in one area may lead to increases in another. For example, the most obvious services to reduce are the optional services (Charts #9 and #10). Most of the expenditures for optional services are for intermediate care facilities (ICFs). However, eliminating this service would leave many elderly clients in ICFs with the prospect of having to leave the facility, but with no place to go. Further, any savings on ICF services may be counterbalanced by an increase in usage of skilled nursing facilities by patients whose conditions have deteriorated because they could not obtain the ICF service. It is important not to be "penny wise and pound foolish."


S C
SOUTH CAROLINA STATE HOSPITAL
INSTITUTION AUTHORIZED 1821 BY GENERAL ASSEMBLY, MAINLY THROUGH THE WORK OF TWO MEMBERS, SAMUEL FARROW AND WILLIAM CRAFTS, JR. THE ORIGINAL BUILDING, ON RIGHT, DESIGNED BY ROBERT MILLS, SHOWS A PIONEER GRASP OF THE IDEAS OF HUMANITARIAN TREATMENT.
1-2

Historical marker at the entrance of the South Carolina State Hospital, Columbia

CHART 3: Medicaid Eligibles



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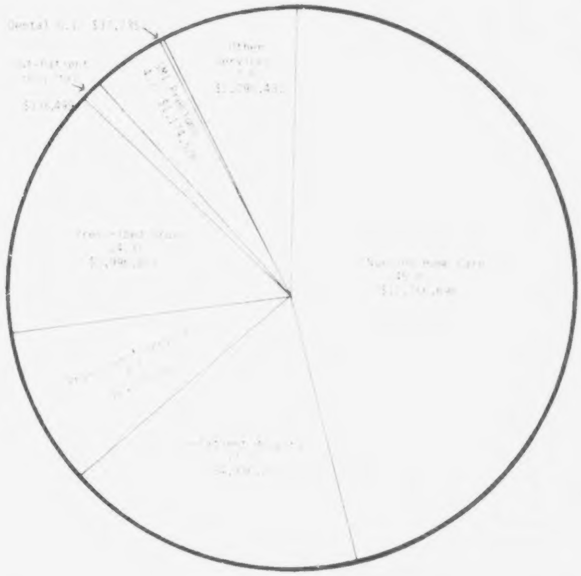
Another example is illustrated by a study performed in Louisiana. An attempt was made to reduce the cost of drug services (also an optional service) in the Medicaid program. This was accomplished by reducing the number of drugs for which the Medicaid program would pay. This did indeed reduce the Medicaid expenditures for drugs. However, the very illnesses which the eliminated drugs were designed to protect against became more prevalent and led to increased hospital costs that more than offset the savings in the drug area. Thus, when a very inexpensive optional service, drugs, was reduced, a very expensive mandatory service, hospitals, increased.

A third consideration that makes planning Medicaid services difficult is that it is not clear how much of this planning will be done by Washington and how much by the states. At present, states have relatively few options. Even these options may change without the states' being able to predict the changes. Thus, changes in Federal requirements may invalidate state planning. As shown above, expenditures for long-term care (nursing home) services have played the largest role in the increases in Medicaid costs over the last half of the 1970's. There has been a recent trend in the nation and South Carolina to develop alternatives to nursing home services. First, it is hypothesized that elderly clients would prefer to remain in the community if at all possible. Second, it is hypothesized that the cost of maintaining a client in the community would be less than a nursing home. South Carolina is conducting several projects with Federal participation to test these hypotheses. Again, a word of caution is

CHART 4: Medicaid Expenditures: Type of Services, FY '70



Total Medicaid Expenditures for FY '70: $27,852,405.*

*Excluded from the total are net Medicaid expenditures for DMR; and for General Assistance, cancellations and refunds are not included.

Prepared by: Statistical Analysis & Reporting NL

necessary. Even if it can be shown that keeping clients in the community is less expensive than nursing homes, it is possible that this will not reduce the total cost of the Medicaid program, since all available nursing home beds are now filled and there are waiting lists. A program of increased community services will probably not reduce the number of Medicaid clients in long-term care, and thus, increase Medicaid costs.

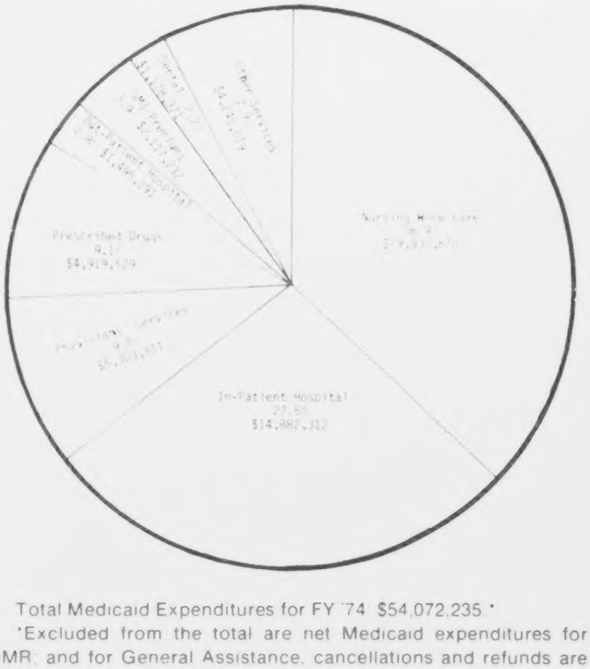
Another area that will be looked at quite closely for cost containment is fraud and abuse. Evidence of this trend is the availability of favorable matching rates for the development of independent investigation units and Medicaid Management Information Systems (MMIS). It is not difficult to see why this is such an attractive area at which to look. It is particularly appealing because it does not deprive any "deserving client" of needed service. It is certainly the easiest position for a politician to advocate. The danger is that this area is so attractive and painless that officials will not look elsewhere for potentially bigger cost savings. There are also drawbacks in this area. First, it will probably not generate nearly the cost savings that its advocates claim. Second, it will lead to even more bureaucracy. Some attempts in other welfare programs to tackle the problem of fraud and abuse have shown that it costs more to administer than is saved in program costs. This is not to say that this area should not be adequately explored.

Some other attempts at cost containment involve reducing payment to providers of medical services. For example, some other states pay only a percentage of the actual cost of providing long-term care. This represents a savings for taxpayers, first because it limits the availability of services to Medicaid eligible clients and second, because it costs less for a Medicaid eligible client. However, the portion that Medicaid does not pay must be absorbed elsewhere. Usually this results in higher charges for private pay patients or in local governments appropriating funds for health care.

If there is one point this article is intended to make it is that the problem of slowing the rate of increases in Medicaid expenditures is extremely complex. The financial costs are staggering, but even more importantly, the human costs may be, too, if prudent decisions are not made. There is every reason to begin planning immediately.

Who will do this planning? Who will the decision makers be? There are several distinct groups that will impact on any decision made. Perhaps the most obvious is the Department of Social Services, the single state agency designated with the

CHART 5: Medicaid Expenditures: Type of Services, FY '74

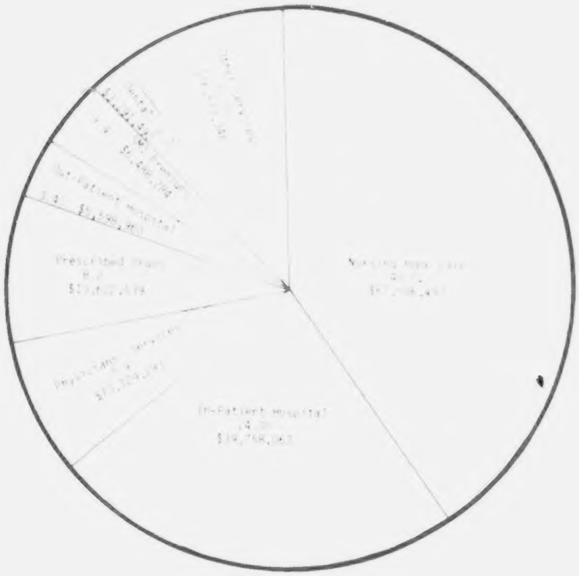


Total Medicaid Expenditures for FY '74: $54,072,235.*

*Excluded from the total are net Medicaid expenditures for DMR; and for General Assistance, cancellations and refunds are not included.

Prepared by: Statistical Analysis & Reporting NL

CHART 6: Medicaid Expenditures: Type of Services. FY '74



Total Medicaid Expenditures for FY '79 $165.908.476.*

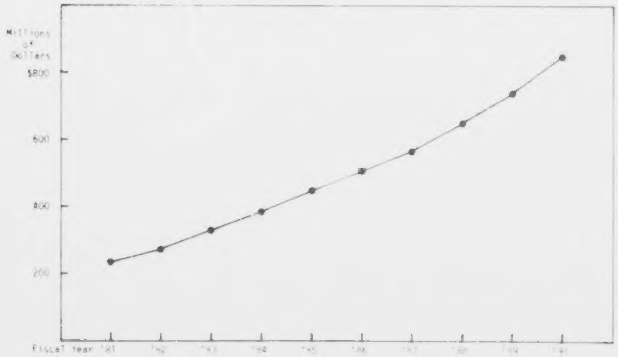
*Excluded from the total are net Medicaid expenditures for DMR; and for General Assistance, cancellations and refunds are not included.

Prepared by: Statistical Analysis & Reporting NL

responsibility of administering the Medicaid program. Several other state agencies utilize Medicaid funds: the Department of Mental Retardation, the Department of Mental Health, and other agencies representing the interests of groups of primary users, e.g., the Commission on Aging. Also, in the area of public and quasi-public agencies are the Department of Health and Environmental Control, and the health service agencies and regional councils of government. For example, DHEC is the agency that issues certificates of need or authorizations to establish nursing homes. These entities have broad health planning responsibilities. Certainly, the direction of health planning in general must consider the Medicaid program in particular.

There are several additional groups that influence the planning and decision making process. Each of these groups represents a vested interest, but also faces the grave responsibility of rising above short-term personal interests. These groups are the service consumers and the advisory groups that represent them, the general public or taxpayers, and the service providers and the various organizations that represent them. These groups interact with, and have some influence on, the public administrators and planners; however, their most significant area of impact is through the legislative process. Here, then, are the final decision makers, the members of the South Carolina General Assembly. They make the decision to fund or not to fund the various options presented to them. As funds become scarce, these decisions become more difficult. The legislature has positively addressed its responsibility by establishing the Health Care Planning and Oversight Committee, composed of both representatives and senators, to consider the area of health care costs and services.

CHART 7: Projected Medical Care Costs, FY '81 - FY '90



Increases in costs and utilizations are based upon trend data used in the Five-Year Plan. It was assumed that no utilization in use would occur in Nursing Home Care after FY '84.

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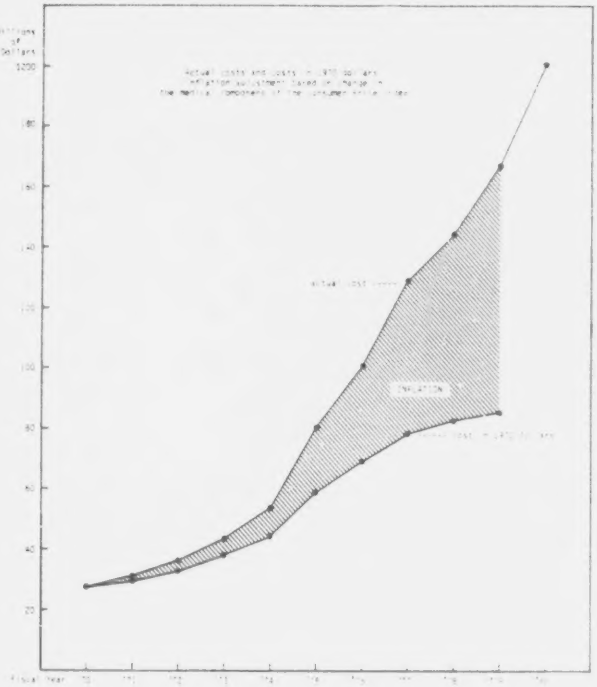
DSS has taken some significant steps toward controlling cost growth in the last two years. Perhaps the best example of this relates to nursing home costs. Inflationary trends in cost per day of care have been implemented through a two-pronged approach. First, the methodology to determine the rate per day has been changed from a cost plus profit system to a cost reduction incentive system. Second, dual licensure was implemented so that the same rate in dual licensed homes is paid for skilled nursing care and intermediate care. Thus, it is in the interest of the nursing home operator to provide the lowest level of care appropriate for the patient. As more units of ICF care are provided, the cost of service per day to the nursing home is reduced (Chart #11). Also, initiatives have been taken to control the consumption of nursing home care. DSS has limited the number of additional beds for which the agency will pay in accordance with the following 6-year plan: 500 additional beds will be funded the first year; 400, the second year; 300, the third year . . .; and 0, the sixth year. The Legislature authorized a community long-term care pilot project, and the Department of Social Services in cooperation with the Department of Mental Health, the Department

CHART 8: Total Medicaid Costs (All Services)



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of Health and Environmental Control, the Commission on Aging, and the Governor's Office has now initiated this pilot. A sample of patients who have applied to enter nursing homes are provided with community care that enables them to remain in their homes.

What do people want from the Medicaid program during the next decade? Almost everyone wants one or more of the following: (1) provision of service to more poor people who are not now covered, (2) an expanded scope of services, (3) improved quality of care, and (4) controlled costs. It is obvious that these demands do not complement each other. Not only are the demands at cross purposes, there are many factors that are not controllable at the state level. Most major changes in Federally funded programs result from changes in Federal laws and regulations. These changes are frequently the result of legislative compromises and may result in major service and or funding alterations with little warning.

The state of the national economy also influences the program. In times of recession, fewer public dollars are available to the programs, while more people are eligible for the services. After a recession ends, the rate of increase in clients eligible for services decreases; however, the number of clients eligible and receiving services does not decrease significantly. Those who become eligible, even during periods of economic recession, tend to stay eligible. It is likely that even if more state funds become available to finance the Medicaid program, increased client eligibility will consume every available dollar.

The Mills Building at the South Carolina State Hospital, Columbia. Designed by Robert Mills, this building is the second oldest mental hospital in the nation. Construction was begun in 1823 and completed in 1827. Now vacant except for archives, this structure is listed in the Register of National Landmarks.

CHART 9: Medical Services

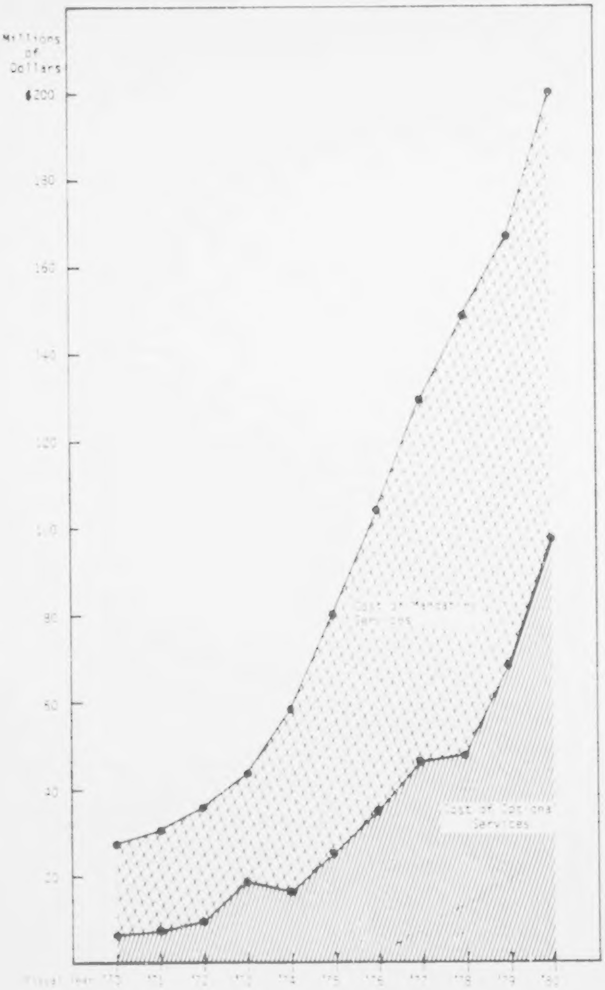
Services	Required Services	Optional Services
1 Inpatient hospital services	·	
2 a Outpatient hospital services	x	
b Rural health clinic services	·	
3 Other laboratory and x-ray services	x	
4 a Skilled nursing facility services for 21 years of age and over	x	
b Early and periodic screening diagnosis and treatment services for individuals under 21	·	
c Family planning services and supplies	x	
5 Physicians' services	·	
6 a Podiatrists' services		x
b Optometrists' services		·
c Chiropractors' services		·
7 Home health care services		·
a Intermittent or part-time nursing services provided by a home health agency		·
b Intermittent or part-time nursing services provided by RN or LPN when no home health agency is available		-
c Medical equipment supplies and appliances for use of patient in own home		·
d Services of a home health aide		·
8 Private duty nursing services		
9 Clinic services		·
10 Dental services		·
11 a Physical therapy		·
b Occupational therapy		
c Services for individuals with speech disorders		·
12 a Prescribed drugs		·
b Dentures		
c Prosthetic devices		·
d Eye glasses		·
13 a Diagnostic services other than provided above		
b Screening services other than provided above		-
c Preventive services other than provided above		-
d Rehabilitative services other than provided above		-
14 a Services for individuals aged 65 and over in institutions for tuberculosis		
(1) Inpatient hospital services		x
(2) Skilled nursing facility services		-
(3) Intermediate care facility services		-
b Services for individuals aged 65 and over in institutions for mental diseases		
(1) Inpatient hospital services		x
(2) Skilled nursing facility services		-
(3) Intermediate care facility services		-
15 Intermediate care facility services (other than for those in 14 a and b above) for persons in need of that care, including the mentally retarded		·
16 Inpatient psychiatric facility services for individuals under age 22		x
17 Any other medical care or remedial care recognized by state law, specified by The Secretary of HHS		
a Transportation		·
b Christian Science nurses		-
c Care provided in Christian Science sanitorium		
d Skilled nursing facility services for people under 21 years of age		·
e Emergency hospital services		x
f Personal care services rendered in recipient's home under an RN's supervision		

· Service provided in South Carolina with no limitations
˙ Service provided in South Carolina but with limitations
- Service not provided in South Carolina

Prospects for program expansion seem remote for the next several years. It may appear necessary to reduce existing services, a most difficult process. In the area of health care, reduced services, as discussed earlier, often result in increased costs in a very short time. If drugs are not purchased, nursing home or hospital care is often needed. If intermediate long-term care is not purchased, skilled nursing home care or hospital care is often needed. Apparent short-term cost savings approaches are often expensive. Only long-term approaches are reasonable. Is it not better, and probably cheaper, to maintain wellness, or at least to prevent illness, than to intervene only in times of health crisis? Yes, but — these changes to support preventive approaches are more costly in the short term. Both the preventive system of services and the crisis system of services must be maintained. At present, there are no extra dollars to offer these new services. The recession appears to preclude any major shift in Federal funding in the next few years.

At the Federal level, the Child Health Assurance program, once almost assumed to be passed, has fallen into the background of legislative activity. Major impacts, like major changes, must come from the Federal level. It will be necessary for the Federal Government to take the lead in determining the direction of health care for this nation in the future. The commitment to freedom of choice in the selection of providers must be re-examined. Wage and price controls must be considered carefully. Finally, a unified approach to health care needs to be designed and adopted. Some form of national health insurance seems to be the natural answer to this. In 1976, the American Public Welfare

CHART 10: Expenditures for Mandatory and Optional Medicaid Services



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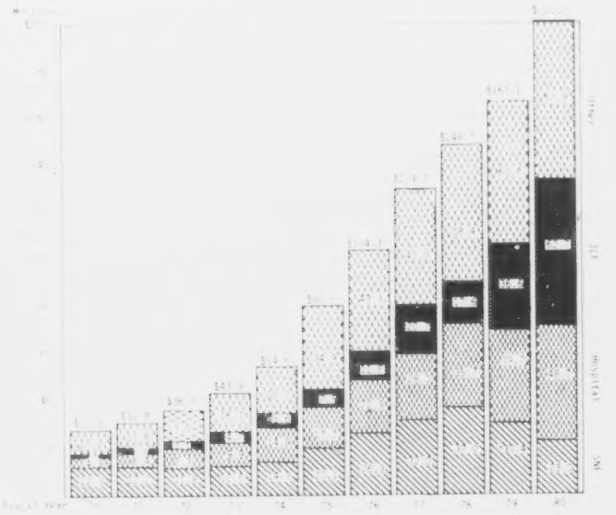
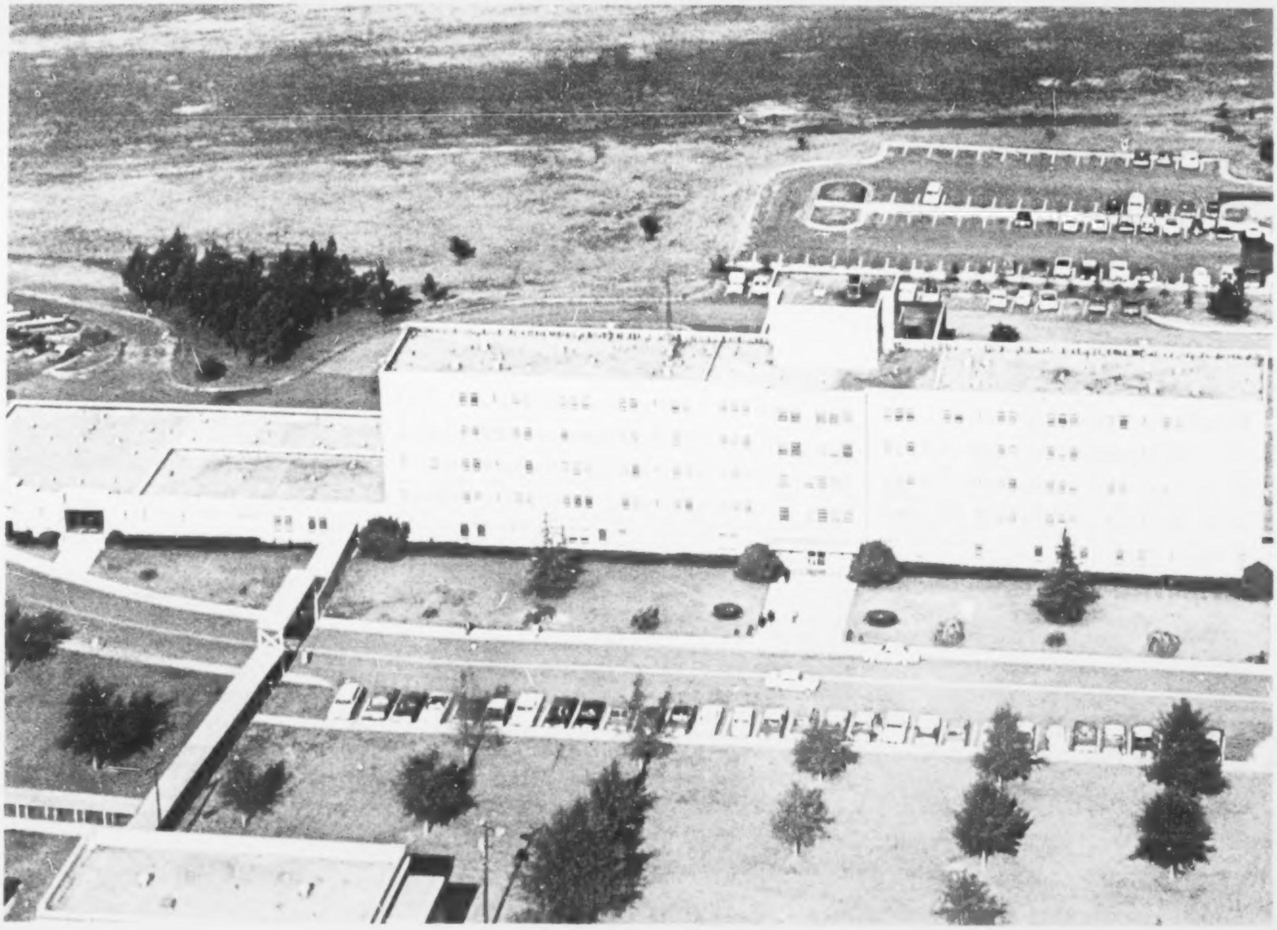
Association Board (APWA) adopted principles that are still appropriate in relation to the consideration of any national health insurance proposal. The APWA believes that national health insurance should do all of the following.

1. Provide coverage for all residents of the United States.
2. Cover a comprehensive scope of essential health care services including
   a. primary preventive care,
   b. emphasis on health education so that the consumer has an active role in the maintenance of his own health, and
   c. long-term care.
3. Impose no deductibles or coinsurance.
4. Be financed through earmarked Federal revenues, to the maximum extent possible on a progressive basis.
5. Be enacted immediately, setting forth the long-range goal of adequate health care for all citizens with phased implementation over a period of years.
6. Be administered by an independent Federal agency, newly established, that would be responsible for overall policy determination, budgeting and allocation of funds, supervision of program and health system performance, and research and program evaluation.
7. Authorize the use of regional, state, and local public and private organizations that could be delegated, through contracts negotiated on a periodic and competitive basis, the daily operation of the benefits payment process, including client and provider relations. In addition, contracts with public agencies should be negotiated to assure regulation of delivery system performance and resource development.
8. Utilize the budgeting appropriations process as the basic expenditure control in the program, with appropriations planned on a five-year basis and subject to annual review. Within this constraint, adoption of a flexible management process through controls and incentives would assure adequate administrative performance, quality

CHART 11: Medicaid Costs by Service



Prepared by Statistical Analysis & Reporting NL



Aerial view of the James F. Byrnes Clinical Center, the medical/surgical hospital that serves the patients of the South Carolina State Hospital and Crafts-Farrow State Hospital, Columbia

of care, cost control, and accessibility to appropriate services.

9. Provide Federal leadership and earmarked funding for research, planning, and development of resources to improve the capacity of the health care system to perform in relation to its financing, organization, quality, and supply of facilities, manpower, and services.
10. Assure an open and participatory process of policymaking at all levels — initially and on an ongoing basis — which includes participation by consumers, providers, and Federal, state, and local public and private interests.
11. Allow states a major role in the administration of National Health Insurance (NHI), particularly in regulatory activities, but with no responsibility for the financing.
12. Give priority in the first years of NHI to coverage of children and primary-preventive care while improving Medicaid, Medicare, and related programs until NHI is fully comprehensive.

In summary, the 1980's offer increased demand for health services and few dollars to fund these services. This decade needs sound prospective health planning now for changes that could be implemented three or more years from now. The margin for error is ever so slight for the decisions about health care. Models and demonstrations for cost saving and service expansion appear to be critical.

Financing the Health Care System — Alternatives for South Carolina — Hospitals

By William Lentz Ivey

Serious moral and economic issues face all Americans relative to health care in the 1980's. These issues will be debated at the individual, the organizational, and the public policy levels. The debators will include government officials, the rich and the poor, health professionals, and those in industry in general and the insurance industry in particular. No individual or group will escape the consequences of this contest.

Unfortunately, in the discussions to date, oranges have been compared with apples; solutions confused with problems; needs equated with demand; static and dynamic models used interchangeably with dramatically differing predictive results; and the underlying values of the differing groups made more implicit than explicit, if made at all.

William Lentz Ivey is President and Chief Executive Officer of Richland Memorial Hospital and Chairman Elect of the South Carolina Hospital Association. A graduate of Auburn University and the University of North Carolina at Chapel Hill, he is a former Deputy Coordinator of the Arizona Regional Medical Program at the University of Arizona, member of the Hospital Administration and Economics faculties of UNC-Chapel Hill, and Director of North Carolina Memorial Hospital. Ivey has also served as Vice-President of the American Heart Association, Chairman of the Board of Directors of the Arizona Affiliate of the American Heart Association, Chairman of the American Hospital Association's HAS (COMPARS) Advisory Committee for South Carolina, Vice-Chairman of the Appalachian Council of Teaching Hospital Directors, Chairman of the Board of Directors of the North Carolina Heart Association, Consultant to the Research Triangle Institute, Consultant to, and member of, the National Cancer Institute, and Chairman of the South Carolina Voluntary Health Care Cost Containment Committee's Task Force to Evaluate National Guidelines, Financing, and Membership Structure; as well as in numerous other posts in many national, regional, and state organizations. He is also the recipient of various service awards from Auburn University, the North Carolina, Arizona, New Mexico, South Carolina, and American Heart Associations, the State of New Mexico, the Southwest Regional Heart Committee, and the Arizona Regional Medical Program.

Further, at least until the mid-1980's, proposed solutions to these moral and economic issues are likely to continue being made in a partial vacuum because of a lack of governmental and community consensus concerning personal health goals and the goals for health services. Yet, it is essential that both sets of goals be stated explicitly rather than implicitly, because these form the framework necessary for planners, managers, and the community to know where the public wants to go in improving health and services and where health care currently is. They also are the guides by which those concerned locate gaps and barriers to progress and, subsequently, make decisions at either a micro or macro level about the allocation of resources. In the absence of generally accepted goals, however, decisions will continue to remain randomized and often one set of decisions will be counterproductive to another. Funds spent in one area of activity will continue to have their effect reduced or nullified by activities carried on elsewhere. The improvements in cancer care as opposed to the increasing production of carcinogenic, or cancer causing agents, is a classic example.

During this decade much more will be said about reducing health care costs by changing personal behavior and genetic and environmental conditions. Much will also be said about achieving the highest level of availability, accessibility, acceptability, and appropriateness of services for all persons ill or disabled. Indeed it will continue to be argued by most that quality health services are the right of all Americans, regardless of sex, race, religion, handicap, age, geographical location, personal financial situations, and or individual efforts to prevent illness or disability.

Whether or not one has a right to health care is a moral-political issue. The assurance of such a right is an economic-political problem whose solution in South Carolina and the nation raises serious questions and significant consequences for all. This is particularly true for South Carolina hospitals and the communities they serve, for reasons discussed below.

There are 72 community hospitals in South Carolina. Of this total, 33 are governmental institutions, 33 are nongovernment-not-for-profit operations, and 6 are investor owned. In addition, 34 have under 100 beds, but all 72 hospitals in the aggregate provide 3.9 beds per 1,000 persons as compared with the national average of 4.5 beds per 1,000 persons.

In 1969, South Carolina ranked 46th among all states in hospital expenses per patient day. In 1978, it ranked 45th. In both years, this state's expenses amounted to approximately 75 percent of the national average. Also in 1978, in full-time equivalent personnel per occupied bed, South Carolina ranked 43rd, and in hospital expenditures as a percentage of per capita income, 45th.

Given the aid provided them by The Duke Endowment, The University of South Carolina College of Business Administration, and the South Carolina Hospital Association, this state's hospitals may be characterized as having chief executive officers and other top management with graduate degrees in management and advanced training in financial administration. These hospitals also share such support services as industrial engineering, purchasing, computer applications, consultants, and managers, to name only a few. They have shared financial and patient services information for decades as a means of improving and evaluating the efficiency and effectiveness of their services. Further, they have a long history of participating in voluntary cost containment activities, and, in 1978, accepted leadership in organizing the South Carolina Voluntary Health Care Cost Containment Effort among hospitals, other providers, business, and government as part of the voluntary national cost containment effort.

Most South Carolina hospitals have affiliation agreements for the continuing education of their personnel and the creation of a regionalized system of health care in an effort to avoid unnecessary duplication of services. Toward the latter, they have supported Certificate of Need legislation and statewide and area comprehensive health planning activities as a means of maintaining local accountability and responsibility for health care decision making.

Yet, these hospitals and their communities daily face the serious moral and economic issues mentioned earlier in this article. South Carolina is still a state without equality of health services. Half of its counties are classified as medically underserved and at least 15 percent of its citizens have less than poverty level income. Of this latter group, one-half are not entitled to Medicaid because South Carolina has one of the more limited Medicaid programs in the nation, with 46 percent of its funds going to nursing home care and only 24 percent to hospital services.

With the exception of a few counties and certain special state programs, there is a large shortfall in governmental support for the medically indigent population in South Carolina. Those in this group may have low or higher income, but all have family members with catastrophic health problems. Since hospitals cannot create money but can only transfer funds collected from one group to support another, the unmet financial cost of medically indigent services, to the extent that they can be provided, are borne by the private patient and his third-party private insurance payor. The effect is to make hospital charges and hospital insurance rates higher than they would otherwise be. Of course, taxes are at a level lower than they might otherwise be, too. The impact on volume of services is more uncertain, since delays in access to the system tend to result in greater complications, longer stays, and increased risk of lasting disability. The moral-economic problem should be evident.

The nation's hospitals are essentially a product of the art and science of health care developed since World War II. This development has the potential of continuing at an accelerated rate. Since 1960, the general development of medical, surgical, coronary, and neonatal intensive care units; renal dialysis units; nuclear medicine and radiotherapy departments; trauma and poison control centers; automated laboratories; and computer tomography have come into being. During this period building codes and hospital designs have also changed dramatically to include the provision of interstitial spaces, positive and negative air pressure and circulated and uncirculated air-handling systems to minimize cross infection, emergency and specially grounded electrical systems, and computer applications in general management and patient care services. All of these changes are both costly and beneficial to the ill and disabled today.

Changes in the 1980's can be even more dramatic. Each can be expected to impact on the economics of health care in terms of such factors as

Aerial view of Richland Memorial Hospital, Columbia

the rate of obsolescence of equipment and facilities, cash flows, and health manpower basic and continuing education.

1. **Further development of DNA and RNA research and its application for accelerating or retarding the growth of organisms and cells.** Yes, cloning is not only theoretically possible but also in the future is the ability to influence the development of cancer cells and other cell-related diseases which will make many existing treatment modalities obsolete.

2. **The development of BAPN or similar compounds to control scar tissue.** The potential impact of this on the treatment of burns, on urological and liver disease, on the outcome of plastic surgery, and indeed on all surgery where adhesions are a problem is very significant.

3. **The development of emulsions of fluorocarbons as a substitute for human blood needed for the treatment of patients with trauma, cancer, heart disease, and diseases of the blood.** This advance will impact favorably on the cost of medical care, the banking of blood, and the outlook of many patients, from the very young to the very old, for three reasons: fluorocarbons (1) tend to concentrate on the liver and spleen, (2) are 1/1,000th the size of the red cell, and (3) have an indefinite shelf life.

4. **The application of chip and bubble technology on the development of computers for the hospital, clinic, office, and home.** A computer that filled a room and cost $1 million 15 years ago now is desk size and costs only $10,000. The impact of computers on information processes and storage in all likelihood will, for example, become a substitute for X-ray films in the very near future, making obsolete not only the film but also film processors, film storage areas, etc.

5. **The development of biomedical communication systems using satellite and miniaturized sending and receiving systems.** Here the possibility of having specialty consultation available and accessible to almost any patient or health professional, regardless of geographical location, can be foreseen.

6. **Further developments in the use of sonar and nuclear energy sources for the diagnosis and treatment of disease.** The implication of this development for the diagnosis and treatment of potential birth defects and for cardiovascular and neurological diseases will have a profound impact on many existing hospital and other community services.

7. **Further developments in the theory and practice of immunization, bioengineering, and metallurgy.** These advances will make organ transplantation and joint replacement during the next decade what Buck Rogers was to the last generation.

8. **Further development of lasers, fiber optics, micro surgical and medical instrumentation, autotransfusion and computed emission as well as transmission tomography.** These advances will impact on every hospital department and health professional.

9. **The degree of horizontal and vertical consolidation that is going on in all areas of institutional health services.** These developments will make it very difficult for any health care institution or profession to stand alone.

Some of the above may add to costs while others may reduce them dramatically. All, however, will be argued to be beneficial to the ill and disabled.

The question, then, is, "Will these potential improvements in the art and science of health care be made available and accessible to all persons in the 1980's, regardless of personal finances, handicaps, age, and geographical location?" There is an indication that there are those who would like to see the moral-economic debate on this issue occur in the public arena in order to achieve an acceptable and understood public policy regarding health and health services. Others, and perhaps the majority of those involved, would choose to avoid such a debate. This latter group would rather

Richland Memorial Hospital. Columbia

change public policy by actions that would ultimately cause a moral, economic, and political credibility gap between hospitals, other providers, and their communities. In essence, by indirection, these "nondebaters" would create two systems of health services. One system would be for the poor and lower-middle-income groups and would be financed by inadequate government funding and inadequate private insurance which in aggregate would be insufficient to provide the desired or potential level of services. The other system would be for middle- and upper-income persons and would be funded by adequate private insurance and personal means. In proposing mandatory cost containment legislation, certain government officials would ration services while trying to avoid or minimize the moral-political implications of their proposal. Rationing for certain segments of society will be the goal, but the issues will be clouded, confused, and indirect. Likewise, rate setting proposals to control revenues, caps on costs, limits on investment in equipment and facilities, and reimbursement by "reasonable" costs formulas all will have the ultimate impact of reducing the potential availability of services and rationing services for some if not all. If the experiences of other Western societies are indicators, it will be rationing for some but not all.

A system of rationing is characteristic of every society. It is only when this nation promises no rationing and then rations, when it promises unlimited health services as a matter of right and then rations those services, that it comes to the fundamental moral, economic, and political issues that will thread through all health services policy affecting hospitals in the 1980's.

In this country's open society, with its mass media systems, the issues, including their economic aspects, should be clearly understood by all segments of society. As a result, it can be predicted in the years ahead that

1. the public will make more informed decisions about behavioral and environmental matters by affecting personal health and consequently the demand for, and supply of, health services;

2. the public and health professionals will make more informed choices about the use of health services, particularly those that have little or no impact on the quality or duration of life;

3. the public will understand more clearly that this country's present system of financing services for the medically indigent population is unfair because it causes hospitals to levy hidden taxes on the sick and privately insured to support those who do not have the ability to pay; and,

4. the public will realize that there is nothing magic about the percentage of gross national product that should be allocated to health services. Instead, they will be aware (1) that the choices between goods and services, between good health and poor health, are ones that must ultimately be made in a free society by informed and compassionate individuals, and (2) that these choices will change as individual health status, age, and values change.

In summary, South Carolina hospitals will be increasingly committed to support a single system of health services for all, not one for the poor and another for the more affluent. They will support that single system with the hope that it can optimize individual and organizational accountability and responsibility for the use of resources and health services so that progress can continue toward the ultimate goal — the meeting of the health needs of all South Carolina citizens.

Financing the Health Care System — Alternatives for South Carolina — Blue Cross and Blue Shield

By Joseph F. Sullivan

When one looks for alternatives to South Carolina's health care system, the presumption is that the existing system is not good — that there is a need for drastic change. For the most part, however, the state's present health care system is fairly effective. There is no crisis.

Yet, the need for alternatives and modifications always exists. Some refinement, some innovation is necessary just to keep up with ongoing changes in technology, regulation, and demographics. The price tags for these changes, though, keep showing higher and higher figures, and somebody has to pay the bills.

From 1966 to 1976, health care expenditures grew at an average annual rate of 11 percent, climbing from $42 billion to $137 billion. While a little over half of the growth was attributable to a general rise in prices, this rate was still greater than that for the rest of the economy.

Health care is now a $230 billion a year industry. Following agriculture and construction, health care is the nation's third largest industry and consumes nearly 10 percent of the gross national product. Hospital costs, which accounts for 40 percent of all health costs, is the predominant national contributor to the overall escalation of health care spending.

Joseph F. Sullivan is President of Blue Cross and Blue Shield of South Carolina. A graduate of the University of Rhode Island, Sullivan is a veteran of the Blue Cross and Blue Shield system. After holding sales positions with IBM and Remington Rand, he joined the Rhode Island Plan as Blue Shield Claims Manager and moved up through the ranks to the position of Senior Vice-President before moving to the South Carolina Plan as President in 1971. Sullivan currently serves on the Board of Directors and the Executive Committee of the Blue Cross Association, the Joint Executive Committee of the Blue Cross and Blue Shield Association, the Board of Directors and Executive Committee of HSI/MIA, and the Blue Cross and Blue Shield Governmental Committee.

Now, however, after years of consumers wanting unlimited care, of government promoting growth in the production of health care facilities, and of physicians providing services based solely on quality, people are anxious over medical prices. Well they should be.

Health care, a fundamental, personal need, should be examined in a new light. Society is demanding that this be done, since it is questioning whether the product it is buying is worth the price it is paying.

Given this climate, then, it's time to instill alternative behavior patterns in everyone. The public is financing the health care system, so it is the public that must be willing to mandate alternatives.

How can persons and organizations accountable to the public accomplish this? The answer in many instances is education and/or financing.

EDUCATION

The health care system and those who use it must be educated. Reductions in the utilization of, and expenditures for, the system can be effected through a reduction in the need for such services. There are, however, two major obstacles inherent in this alternative: the initiation and the development of actual programs. Because of its cost and long-range, seemingly nebulous results, education is often given a low priority. This author recommends the following suggestions for encouraging the development and implementation of educational programs.

Suggestion 1: Encourage Employers to Provide Such Programs

With new government regulations for hiring and firing, employers must find ways to work with, and invest in, the human capital that is available.

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This is especially true since employers have increased their contributions in recent years toward the cost of fringe benefits, the most costly of which may be health insurance premiums. Employers, on the average, pay over 70 percent of the cost of health coverage for their employees. Given this type of investment, employer-sponsored education programs about shopping wisely for health care services and appreciating the benefits of healthier life styles could have an impact on the efficiency of businesses.

Suggestion 2: Inform Customers about the Costs and Benefits Associated with Alternative Courses of Treatment

People should be encouraged by the medical profession to ask, "Why do I need this particular course of treatment?" and "How much is it going to cost?" before they agree to undergo it. The medical profession has become more and more amenable to answering these kinds of questions, but the mystique surrounding doctors and what they do still inhibits such action on the part of many patients. Along these lines, doctors should encourage second opinions on elective and controversial (nonemergency) types of surgery.

According to U.S. Surgeon General Dr. Julius B. Richmond, unnecessary surgery has become a significant public issue:

> We know, for example, that for no obvious reason the rate of elective surgery — nonemergency operations — is twice as frequent in the United States as in Great Britain. Another study shows that a community with an ear-nose-and-throat surgeon may have a considerably higher number of tonsillectomies than a community with no such surgical specialist. Does this mean that the children in the first community need more tonsillectomies? Not likely.

According to recent estimates of the House Commerce Oversight Subcommittee, approximately 10,000 people die in this country each year from unnecessary surgery. The public pays in two ways for this useless waste of lives — in human suffering and in increased costs of health care.

Suggestion 3: Emphasize the Importance of Being Well through the Educational System

Blue Cross and Blue Shield of South Carolina, Columbia

Such programs could be administered through the schools, beginning with kindergartens. Individualized programs could be developed for specific populations. For instance, poor diet is one of the major problems in South Carolina. According to a study conducted by the Three Rivers Health Systems Agency, South Carolinians eat too much starch, salt, and junk food and get too little exercise. Attacking these and other health problems through the youth of the state could have an impact on future health care costs.

Suggestion 4: Educate and Motivate South Carolinians to Adopt More Healthful Life Styles

Mass media, hospital, physician, and community sponsored programs, among other potential educational sources, should begin now to place added emphasis on self-responsibility for wellness. This suggestion has great potential.

Cost containment in health care is possible for the future through better lifestyles and early detection of incipient conditions. Hospitals and doctors in South Carolina should place more emphasis on various infant illnesses and how to recognize their symptoms, the early warning signs of cancer, and information regarding the signs of high blood pressure, stroke, or heart attack, since the incidences of these conditions are significantly high. However, doctors and hospitals can reach only those persons who come to them for medical care.

Clearly, the people of our state need to be educated about these problems. Health systems agencies in South Carolina are the repositories for this kind of information. Through them, or with them, community organizations could reach the population to make it aware of its medical problems, the costs of these problems, and the alternatives to both.

A recent nine-month study by the Three Rivers Health Systems Agency showed that in terms of life span, South Carolina ranks 50th among the 50 states: the average life expectancy here is 67.96 years, 3 years below the national average. The leading cause of death in the 14 counties served by Three Rivers (Abbeville, Chester, Edgefield, Fairfield, Greenwood, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Richland, Saluda, and York) is heart disease, followed by cancer, stroke, accidents, influenza, and pneumonia.

According to Dennis Caldwell, Executive Director of Three Rivers, South Carolina alternates from being

> the lowest to the third lowest in terms of overall health. There are 207 health systems agencies in the country and of these, only 33 can report worse health. There is a great deal of pork eaten in the South, and that is a critical thing. There is a lot of salt in pork and it helps account for the high hypertension and stroke rate. It is not so much the lack of hospital services, it's that people are just not taking care of themselves.

Caldwell pointed out that some health trends are changing due to programs in infant care before and after birth and a number of screening programs that seek out problems — high blood pressure, in particular — before they become incapacitating or fatal. In terms of well-person maintenance, or getting people to safeguard their good health, though, little progress has been made.

Among seven long-range objectives developed by Three Rivers, one of four health systems agencies (HSAs) in South Carolina, are the following: (1) double the number of school-age children aware of comprehensive family life concepts and services to decrease the various problems related to adolescent sexuality, and (2) coordinate a statewide effort in middle schools for programs on smoking and health to foster nonsmoking behavior among teenagers.

These goals and the five others developed by Three Rivers are admirable, but they are aimed at less than a third of the state's citizens. The comprehensive information regarding South Carolina's "unwellness" that is known by the HSAs also needs to be known by all citizens. This could be accomplished through community organizations such as the United Way and its member agencies; through schools, churches, and other such entities; and through the mass media.

In a nation where the public media can convince millions that they will be social outcasts if they do not use the proper deodorant or mouthwash, this same media should be able to convince those same millions that a healthier life style is a beneficial alternative — in terms of good health and increased economy.

Suggestion 5: Encourage Consumers to Be More Self-Reliant in Making Such Basic Decisions as Whether Health Care is Necessary and How They Should Choose Where They Receive Such Care

This option was proposed in the 1976-'77 recommendations of the National Commission on the Cost of Medical Care:

> . . . if consumers are provided with information necessary to making such a determination, they can better evaluate the need to seek professional care or other alternatives open to them. The information provided could include information that would help consumers to recognize symptoms and evaluate the need for provider care versus self-care (e.g., use of nonprescription drugs, bed rest, self-medication by asthmatics, or application of first aid for common injuries).

According to Donald M. Vickery, M.D., and James F. Fries, M.D., authors of *Take Care of Yourself, A Consumer's Guide to Medical Care*, the average family of 4 sees a doctor more than 12 times a year at an average cost of over $35 a visit for services, tests, and drugs. Further, demand for physicians' services grew to 325 million more doctor visits in 1973 than in 1964, leading to increased physician charges and higher health insurance premiums. Most of these visits, say Vickery and Fries, are for relatively minor medical programs, with as many as 70 percent termed unnecessary. "The competent physician's response to these visits is either to reassure the patient or to advise measures which are available without prescription."

Clearly, then, if reliable information were available to medical consumers, they could save time and money and ease the overburdened health care system. The question, then, is where are they to get such information?

Health insurance companies could play a significant role in the dissemination of this kind of information through a wide range of community programs and through public education messages in the mass media. Working singly or in conjunction with other insurance companies, health insurers can meet their accountability to their policyholders by reaching a vast number of people through educational programs designed to help consumers determine if they need health care and, if so, where to get it. Numerous booklets addressing such topics as high blood pressure, alcohol, drugs, and heart disease, among others, are, in fact, already being distributed by health insurers. However, there is more they could do.

Through HSAs, insurance companies could develop, and regularly update, directories of information on hospitals and clinics, the services available, and other topics relevant to consumer choice. Similar directories of physicians, containing specialty information and charges, could also be developed.

FINANCING

The public finances the health care system, so it is up to the public to ask the basic question, "Is what I'm buying worth what I'm paying?" In almost every purchase situation, people have a choice of quantity versus quality. If quality is what is sought or needed, the buyer understands that the cost will be higher and he is willing to pay it.

People in need of medical care, however, especially emergency care, don't have this option. In some situations it's "get medical care or die." The cost of that care is not a consideration, and even if it were, the purchaser would have no control over it. That's frustrating.

When the sick person recovers, however, he cares a great deal why it cost so much to get well, especially if no third party payor is involved. His resentment builds.

Another part of this complex problem is assuring people who need medical care that what they're getting is reasonably priced. In today's climate, this assurance is neither easily made nor usually believed. Therefore, it is up to responsible individuals in the health care system to strive for answers to why things cost what they do and ways to curb the astronomically rising costs. When people assume responsibility for the health care system, by virtue of their positions as members of hospital boards of directors (or trustees), as hospital administrators, or as holders of any other positions of responsibility, they are accountable to the public for the system.

The demand for public accountability is intensifying, and while less of this is seen in South Carolina than nationwide, the demand will soon reach this state in greater magnitude. The rate of inflation dictates such a course.

According to the polls, inflation is the main concern of United States citizens. Consumer prices were up 13.3 percent in 1979, the highest rise since the end of World War II price controls in 1946. People are becoming more skeptical of attempts to relieve inflation. When institutions, whether they be oil companies, automobile manufacturers, utilities, or hospitals, appear insensitive to this concern, the public turns to government for action even though public confidence in the government's ability to curb inflation has decreased.

Is Regulation the Solution?

It is this author's opinion that regulation in almost any industry is regrettable. While this opinion is based on a wistful plea for industries to engage in some self-regulation to prevent abuses, it is nevertheless true that the need for government regulation is a cop-out on the part of management for not being publicly accountable for the way it runs an industry.

The state of New York, for example, has one of the most stringent hospital regulation programs in the nation. Despite these limitations on revenue, however, the latest available data indicate that 80 percent of New York's nonprofit and public hospitals are operating at a deficit. This approach ultimately will lead to greater financial loss, or to bankruptcy, or both. At best, a hospital's future operation will be jeopardized. At worst, it will be closed.

More regulation could produce a health care system that would be unacceptable to both patients and providers. To make a substantial impact on costs, the regulatory agency would have to make decisions involving individual patient management. The information these decisions would be based on would be too broad because to form an opinion about the appropriateness of individual treatment would be even more costly. The alternatives would be either poor decisions regarding the treatment of an individual patient or expensive review with the possibility of error. The greatest hope for cost containment in the health care system lies in strengthening consumer and provider consciousness while limiting growing regulation.

The medical profession, including hospitals, can address directly the growing concerns of the public by enhancing their credibility and by being more publicly accountable. If the profession remains aloof, the desire for more and more regulation will become a public clamor, in spite of mounting evidence that regulation adds to, rather than lowers, health care costs.

Is the Word "Nonprofit" Misleading?

During the past several decades, nonprofit hospitals — once private, charitable endeavors — have become public service operations with only occasional large charitable contributions. There is no indication that trend will change significantly; in fact, government may pay a higher portion for hospital financing in the future. Even so, six out of seven hospitals in the United States are classified as nonprofit, while, in many cases, they are housing businesses that make significant profits. To some degree, this is the case in South Carolina.

Within nonprofit hospitals, entire departments (radiology, pathology, pharmacy, physical therapy, and others) are operated as concessions by profit-making companies. Some hospital administrators feel that these departments produce too many operational, financial, and management headaches; it's easier to let someone else worry about salaries, fringe benefits, staffing, and purchasing. This attitude means, though, that management is not doing what it is paid to do — run a hospital efficiently and cost effectively.

Some of these concessions even include the right to bill patients independently, i.e., the right to determine charges. Public accountability on the part of management is missing in this type of situation.

One can also look over the past few years at the ever-increasing hospital costs attributable to ancillaries. Charges for these services are not visible to the public which sees only room and board charges. When a hospital announces an increase in charges, the focus is on room rates. Again, public accountability is missing.

Are Shared Services, including Technological Advances, the Answer?

Hospitals are labor-intensive. They are energy-intensive. They purchase disposables. They are subject to pressures of the strongest kind.

These things are "givens," and while no intelligent person will quibble about truisms, these precepts don't extend across the entire spectrum of hospital services. Costs can be cut. It is not a truism that patient care will suffer if a hospital operates efficiently.

To a large extent, hospitals in South Carolina share services and have been supported and encouraged to do so by The Duke Endowment, Carolina Hospital and Health Service, Inc., and Carolina Hospital Improvement Program. However, more sharing, such as is done with the burn unit at the Medical University of South Carolina, is possible and necessary in the state.

It is popular these days to discuss heatedly the number of CAT (computerized axial tomography) scanners needed locally and nationally. The facts are that since the Mayo Clinic acquired the first scanner used in this country in 1973, the United States now has at least half of the 2,500 units in the world; the other half are in 49 other countries.

According to the spring 1980 issue of *Perspective* magazine, the following guidelines may be adopted nationally by all health planning agencies: (1) before a new scanner is approved for any area, a minimum of 2,500 CAT procedures should be done at 1 location per year by the end of the second year of operation, (2) with proof furnished that at least 750 patients a year are being transferred to other hospitals for scanning. The American College of Radiology says these guidelines would virtually halt the purchase of whole-body scanners in the United States. With these guidelines, though, an estimated 17 percent of body scanners and 73 percent of head scanners would have been approved in 1978, according to *Perspective*.

A minuscule number of scanners are mobile and can be moved to areas of need. Therefore, until such time as proprietors of CAT scanners can show that there is over-utilization of existing equipment in South Carolina, it is this author's opinion that more should not be approved. In the immediate Charleston area, for example, there are three scanners, two at one hospital. This certainly appears to be a distinct case in which services and the cost of advanced technology should be shared.

Another example of possible overlapping of services is the proposed open-heart surgery units in Spartanburg and Columbia. The Three Rivers Health System Agency said in its February 1980 "Draft Plan for Institutional-Based Cardiac Services," that only one hospital in South Carolina, located in Columbia, is performing at the desired rate of utilization for cardiac surgery. Three Rivers also noted that every resident of South Carolina is within two hours travel time of a facility performing such surgery.

Greenville, within a 30-minute drive of Spartanburg, has open-heart surgery facilities and 2 hospitals in Charlotte, N.C., have open-heart surgery facilities. Why, then, are hospitals in the Piedmont and the Midlands even considering adding open-heart surgery units?

National Guidelines for Health Planning, published in March 1978 by the U. S. Department of Health and Human Services, gave the following guidelines to prevent unnecessary duplication of open-heart surgery services and to promote quality care at manageable costs: (1) there should be a minimum of 200 open-heart procedures performed annually, within 3 years after initiation, in any institution in which open-heart surgery is performed for adults, (2) there should be a minimum of 100 pediatric heart operations annually, of which at least 75 should be open-heart surgery, within 3 years after initiation, in any institution in which pediatric open-heart surgery is performed, and (3) there should be no additional open-heart units initiated unless each existing unit in the health services area(s) is operating and is expected to continue to operate at a minimum of 350 open-heart surgery cases per year in adult services and 130 pediatric open-heart cases in pediatric services.

According to the South Carolina State Health Plan for 1979-'80, the same types of guidelines apply to cardiac catheterization units: (1) there should be a minimum of 300 cardiac catheterizations, of which at least 200 should be intracardiac or coronary artery catheterizations, performed annually in any adult cardiac catheterization unit within 3 years after initiation, (2) there should be a minimum of 150 pediatric cardiac catheterizations within 3 years after initiation, (3) there should be no new cardiac catheterization unit opened in any facility not performing open-heart surgery, and (4) there should be no additional adult cardiac catheterization units opened unless the number of procedures per year in each existing unit in the health service area(s) is greater than 500, and (5) there should be no additional pediatric cardiac catheterization units opened unless the number of procedures per year in each existing unit is greater than 250.

The figures speak for themselves. Presently, there is no need for additional, expensive units of this kind in South Carolina.

Overbedding: Fact or Fancy?

Do general hospitals in South Carolina need more beds? If figures for fiscal year 1980 compiled by the Public Health Service, Department of Health, Education, and Welfare are to be believed, the answer is an emphatic NO!

TABLE 1. Bed Occupancy in General Hospitals in South Carolina

General Hospitals	Bed Need	Existing Beds	Beds to Be Added (excess)	Actual Occupancy (percentage)
Statewide total without statewide facilities	10,747	11,652	(905)	69.7%

Source: South Carolina Medical Facilities Plan, FY 1980.

In the greater Columbia area the major problem, aside from a need for renovations, is not a shortage of beds but a shortage of nurses.

Alex McMahon, President of the American Hospital Association, says a number of hospitals across the country have had to close down wings or floors because of a shortage of nurses. In an interview taped for NBC-TV, McMahon said that nearly 100,000 more practicing nurses are needed nationwide.

One Columbia area hospital wants to build more beds, yet is currently operating at between 80 and 90 percent occupancy. This percentage is alleged to exist due to a shortage of nurses. Will adding more beds guarantee the necessary nursing staff?

In March of this year a profit-making hospital chain announced its intention to apply for a certificate of need to build a 150-bed orthopedic rehabilitation hospital in Columbia. Three Rivers HSA's Caldwell announced that it was unlikely such a certificate would be granted, since there is an excess of 49 general hospital beds in Richland County that could be used for orthopedic rehabilitative care.

There is another way to alleviate the supposed bed shortage in South Carolina or elsewhere — operate hospitals on a seven-day-a-week schedule instead of a five. Patients are charged for Saturdays and Sundays, but in most cases nothing happens on those days. Ancillary services aren't operating, except for emergencies and routine building and dietary services, but nurses must be present. If nurses know no weekends and holidays, why should physical therapists, lab and X-ray technicians, and other hospital employees? The five-day-a-week schedule is a traditional way to operate a hospital, but not an efficient or cost-effective one.

Who Needs Inpatient Care?

Hospital inpatient care should be used only on rare occasions. The question is, how agreeable are consumers of health care to doing this? The answer is, "not very." With rational, factual, and informative explanations by health care professionals to the public about the advantages of finding other places to be treated, where timely, quality, and less costly medical care can be rendered, however, consumers will agree. Not overnight, but eventually, because the public is concerned about the cost of health care.

TABLE 2: Costs of Inpatient Care in U.S. Community Hospitals, 1973 and 1978

Year	Average Length of Stay	Average Costs
1973	7.8 days	$114 per day; $892 per stay; $79 per day for semiprivate room
1978	7.6 days	$222 per day; $1,686 per stay; $105 per day in semiprivate room

Source: Health Insurance Institute.

TABLE 3: Costs of Inpatient Care in S.C. Community Hospitals, 1968, 1972, and 1978

Year	Average Length of Stay	Average Costs
1968[a]	8.0 days	$43.17 per day; $345 per stay
1972[a]	7.5 days	$73.14 per day; $549 per stay
1978[b]	7.1 days	$147.05 per day; $1,041 per stay

[a]Source: **American Hospital Association Guides.**
[b]Source: **American Hospital Association 1978 Annual Survey.**

The basic point to be made here is that the cost of inpatient care isn't going to decrease. Rather, it will increase dramatically because of higher costs of technology and labor and a growing population of older citizens. The cost per day of institutions themselves will get higher, even though the average length of stay may decrease.

Inpatient care needs to be channeled to other delivery systems such as centers for ambulatory care, same-day surgery, outpatient surgery, and pre-admission testing, among others. Such centers are in operation, but they need to operate cost-effectively: renal dialysis clinics do. If the average length of stay in community hospitals were reduced by only two-tenths or three-tenths of a day, how many millions of dollars would be saved?

SUMMARY

In South Carolina two major elements frequently are missing in the health care system: better health planning and public accountability on the part of health care professionals. On the other hand, what good is health planning if hospitals insist on adding more beds when occupancy rates are already less than responsible health planning agencies feel is cost effective? What good is health planning when doctors skirt recommendations of planning agencies by purchasing unnecessary equipment? What good is health planning if hospitals persist in adding cardiac catheterization or open-heart surgery units when those that exist are not fully utilized?

Ignoring recommendations of health planning agencies is ignoring public accountability at a time when demand for such accountability cannot be ignored. To be accountable is to be answerable to the public for one's responsibilities. It includes the obligation to educate and to explain and interpret what an organization does and/or how it discharges its responsibilities of information.

Accountability is not a concept to be feared, but a foundation upon which to view information as a social need and as an institutional responsibility. It is the emphasis of the future of the health care system. Money is not the answer. Accountability, education, better planning, and a change of emphasis are. No matter how much money this nation spends, people cannot buy their way out of poor health.

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Assertiveness Training — A Workshop for Leaders	March 9-13
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Executive Development Program (a 2-week program)	April 5-10; May 3-8

Additional information on any or all of these programs may be obtained by calling 1-803-777-2231, or writing:

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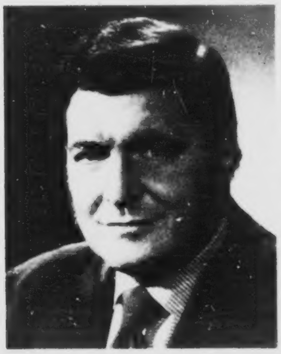
Financing the Health Care System — Alternatives for South Carolina — Insurance

By Louis A. Orsini

With the opening of the decade of the eighties and the general problem of inflation in the overall economy, the health care system will be faced with increasing pressure for improved cost effectiveness. The current debate over how to achieve this objective involves a wide range of alternatives, each with its own influential constituency — Federal controls, state-mandated programs, voluntary initiatives, consumer choice options, benefit plan modifications, alternate delivery systems, and health education. The lack of agreement on which of the alternatives are most likely to achieve the best results indicates that during the early part of this decade, the pluralistic system of financing will continue but with more aggressive experimentation with testing new ideas.

At the present time the health care professionals in South Carolina enjoy a stronger position than many other states in preserving the autonomy of their operations, and in dealing with the limited government regulations that impact on the care delivered to the beneficiaries of the Medicare and Medicaid programs. As of the end of 1978, with a population of 2.9 million, of which 250,000, or 8.6 percent, were over age 65, there were 2.1 million, or 80 percent, of the under-65 population covered for hospital and physician services under private health insurance programs: 1,250,000 under insurance company plans and 950,000 under Blue Cross Blue Shield plans.



Louis A. Orsini is Vice-President and Director of the Consumer and Professional Relations Division of the Health Insurance Association of America, New York City. This association, through its Consumer and Professional Relations Division, provides information and technical assistance on health insurance to consumer organizations and the health care professions. Orsini participates in programs developed either by Federal or state legislation or under hospital, medical, dental, and community leadership to stabilize health care costs and improve quality. These programs involve the Health Insurance Association, in a supportive role, in the work of medical and dental society review committees, hospital utilization committees, and in planning for health facilities, services, and manpower needs. Orsini is a guest lecturer on the various aspects of private health insurance at meetings of organizations and societies interested in the provision and economics of health care, and is the author of numerous articles on health insurance and health care cost containment published in insurance and professional journals. He is also a consultant to the Department of Health, Education, and Welfare.

When the rate of increase in hospital net patient revenues, and physician fees in general, are examined, it can be seen that South Carolina has tracked very closely with the experience of the United States as a whole. One might assume, therefore, that both the providers and the public can look forward to a readily secure future with assured financing for most of the health care needed by the average individual.

However, when a closer look at the forces now at work within the major payor categories is taken, it becomes apparent that pressures are building that will increase the demand for a uniform reimbursement system to be implemented largely at the Federal or state level. This author does not believe it is a question of whether this will happen, but merely of when and in what form.

Because the Federal Government, through its involvement in Medicare and Medicaid, is still the largest single purchaser of health care, the strategies it initiates are felt both within the public and the private sectors. The following will serve as an illustration of this point as it relates to payment for physician and hospital services.

The Federal strategy since the enactment of the Medicare and Medicaid programs has been to achieve cost predictability, not necessarily cost containment. As a result, the limitations imposed on physician fees have shifted the increased cost either to the beneficiaries of the programs or, as in

South Carolina Baptist Medical Center, Columbia

the case of hospital services, to the private sector patient to make up for the government shortfall. However, these pressures for cost predictability are now accompanied by a carefully delineated strategy that will enable the Health Care Financing Administration (HCFA) to be more effective in prospectively limiting total program costs.

With alternatives to the present method of reimbursement for physician services being considered, the idea of negotiated fee schedules is being given renewed attention. The size and scope of the process, however, and the uncertainty of its long-range impact on the cost of physician services suggests that, if anything, there will be limited experimentation with the idea. Similarly, plans involving payment for physician services on a capitation or salary basis have failed to attract a broad enough base of physician support to make them a viable alternative to the current practice of fee-for-service medicine.

Finally, the most complicated part of the equation for reimbursing physician care is the consumer demand factor. While one might debate whether the consumer has any impact on physician judgment when it comes to inpatient hospital services, there is no doubt that the consumer exercises a substantial influence on the decision of whom to seek and when to seek a physician's services in an office or ambulatory care setting. There is ample evidence that the symptoms causing the individual to seek a physician's care on an ambulatory basis in more than 30 percent of the cases could have been corrected with no serious complications without a doctor's intervention. However, most consumers generally value, and want to preserve, the options of not only choosing their physicians but also of deciding when their services are needed.

There are some who believe that the projected surplus of physicians in many specialties, which is expected to occur during the decade of the eighties, will provide fresh opportunities for experimentation with direct negotiations between groups of physicians and major purchasers of health care. Indeed, many of the experimentations now under way with health maintenance organizations and individual practice plans may be carefully monitored and emulated if they turn out to be successful. One of the reasons is that their inherent dependence on salary or capitation reimbursement for physician services successfully transfers the risk for increased consumer demand to the physician. Negotiated fee schedules or reimbursement on a "usual, customary, and reasonable" fee basis only attempt to deal with the price issue and fail to address the problems of demands for unnecessary care by the consumer and unjustified practices by the physician.

With the enactment of P.L. 92-603 and P.L. 95-142, however, HCFA's search for total cost predictability in the hospital sector has now matured to the point that such a quest is a realistic venture. The specifics of this strategy are discussed below.

1. Uniform Hospital Cost Reporting. This is the objective of the current regulations dealing with the annual hospital report.

2. The Medicare Cost Formula Which is Implemented through the Standard Medicare Cost Reporting Form. Currently, Medicare excludes costs for bad debts on other than the over-65 population; unreimbursed costs of charity care; and a profit margin for voluntary, nonprofit, community hospitals. Medicare also limits the profit factor the proprietary hospitals can obtain to 1½ times the rate of interest earned by the Social Security Trust Fund. It is this author's understanding that such hospitals generally earn a profit factor that is substantially higher than that amount. This difference between the definition of reimbursable cost for the beneficiaries of the Medicare and Medicaid programs and the private sector patients represents an additional cost of about $3 billion to the private sector.

3. Current and Projected Cutbacks in Medicare and Medicaid Reimbursement. Section 223 of P.L. 92-603 now gives the Secretary of Health, Education, and Welfare the option to set "prospective limits on the costs reimbursed under Medicare." These limits may be applied to the direct or indirect overall costs, or to the costs incurred for specific items or services furnished by a Medicare provider, and may be based on estimates of the costs necessary in the efficient delivery of needed health services.

Under this authority, the Secretary set limits on hospital inpatient general routine service costs annually from 1974 through fiscal year 1979. The April 1, 1980, edition of the "Federal Register" has announced the proposed limits on these costs for the fiscal year beginning July 1, 1980. While the Secretary has only implemented to date the option to set limits on hospital inpatient routine operating costs, the current law permits the establishment of similar limits for ancillary services and total operating costs. In 1979, the limits set under this section expanded the cutback from an estimated $50 million to $175 million. The projected impact of the new regulation will increase this to $230 million for fiscal year 1981.

4. Malpractice Insurance Cost Limits. During the current fiscal year regulations have been issued by the HCFA that limit Medicare's share of the malpractice insurance cost of the hospital to its actual experience with Medicare beneficiaries. Hospitals have estimated that this will shift an additional $300 million during the current fiscal year to the private sector patient, and increase to over $400 million in fiscal year 1981.

5. Management Information. The HCFA already is collecting or intends to collect both billing and utilization data on the care rendered to the beneficiaries of the Medicare and Medicaid programs through the fiscal intermediary. It already has the authority under P.L. 95-142 to collect such information on the care rendered to all patients.

6. Charity Care Obligations. Additional regulations have been issued that require hospitals that have received Hill-Burton money at anytime in the past to increase the amount of charity or free care they provide to qualified beneficiaries. The American Hospital Association estimates that as a result of this regulation, $94 million will be shifted to the private sector patient during 1980, and $194 million during 1984.

7. Elimination of Nursing Differentials. The HCFA Administrator's Report also indicates that legislation will be sought to eliminate the nursing differential under the Medicare Program. This would shift an additional $191 million to the private sector patient.

Even though the Federal strategy impacts unevenly on the states, and will certainly not be as traumatic in South Carolina as in California, it will force hospitals to increase charges to the private sector patient in order to recover the shortfall under government programs. The deeper the cutbacks, the steeper the increase in costs borne by employers and unions under their fringe benefit programs. This author believes there will come a time when this rate of increase will be deemed unacceptable and there will be pressure from the business community for a more effective uniform cost containment strategy. It is likely that at that point in time the fully developed Federal strategy may be the only viable alternative.

One of the options that now enjoys the support of the business community is the "Voluntary Effort." The hospital field is to be commended for the solid accomplishment of the "VE" during the calendar years 1978 and 1979. One of the major limitations of the program, however, has been the reluctance of the Federal and state governments to surrender their current prerogatives for establishing unilateral limits on the cost of care rendered to the beneficiaries of the Medicare and Medicaid Programs. Thus, even if one were to assume that the "VE" could sustain its impact in reducing the rate of escalation in hospital expenses and that hospitals will voluntarily maintain the discipline

Lexington County Hospital

to correct wasteful and inefficient practices, the government's insulation from the process would severely limit the potential of the "VE" as a long-range cost containment strategy.

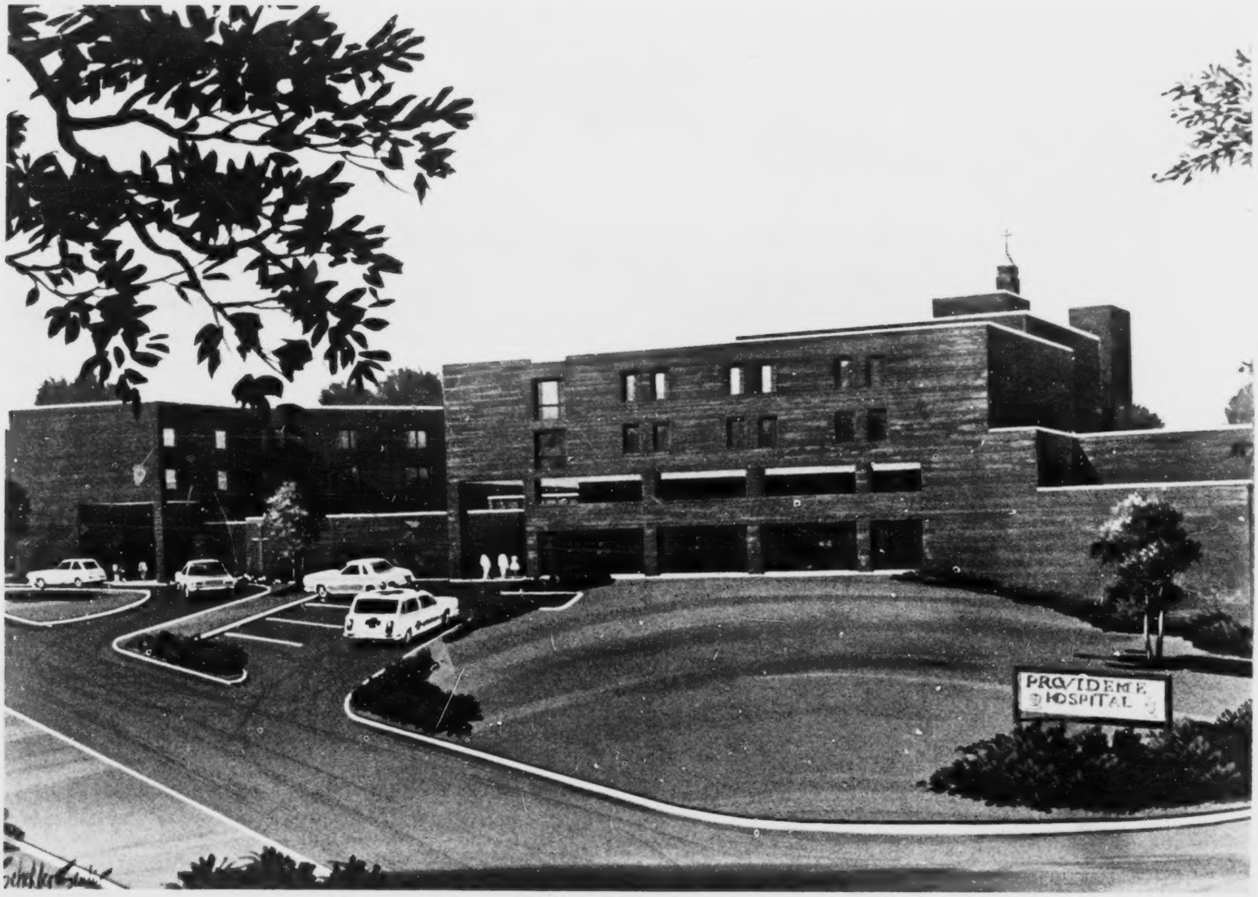
The third option now available to the hospital field, namely, state-mandated prospective hospital budget rate review systems, is still, in this author's opinion, the only practical long-range alternative to Federal controls. However, the state programs to date have developed a modest body of experience ranging from the demise of the Colorado Hospital Commission to the relatively effective system in the state of Maryland. The latter program and the New Jersey DRG System are models that have obtained the necessary waiver from the Federal Government so that their efficacy as uniform reimbursement systems to the care rendered to all patients could be tested.

To prove the viability of the state option, much more work needs to be done by both the hospitals and the regulators to refine the process. It is apparent that any state system, if it is going to retain the flexibility necessary to recognize the varying needs of individual hospitals, will also be vulnerable to domination by the hospitals because they are more experienced than the regulators in general, and have access to a wide array of supporting consultant services. Ironically, if the state process is going to work, the help of the hospital field as well as the support of a broad constituency from the business community will be necessary.

In discussing this option, this author recognizes that there is a current "antiregulation" atmosphere within the business community. It has helped the hospitals defeat President Carter's "CAP" proposal in Congress, and it enables hospitals generally to defeat legislative proposals of this type introduced at the state level.

The hospital field is on the horns of an interesting dilemma. They would prefer the present pluralistic system of financing with its general absence of external restraints on the hospital board administration and the medical staff. Accordingly, every effort by the Federal Government to expand the controls under the Medicare and Medicaid programs will be slowed down by threatened or actual litigation, or by highlighting the accomplishments of the Voluntary Effort. However, the HCFA strategy involves such a wide range of options that it will probably achieve its goal of cost predictability within the next five years.

During this period it is unlikely that there will be an expansion of the state option beyond the six



Providence Hospital, Columbia

states that already have such laws. It is conceivable that if the state process can be refined to correct its inherent weaknesses, with a commitment for Medicare and Medicaid participation, it still may be considered a viable alternative.

In the interim, there will be an expanding involvement by the business community (i.e., management and labor) in the cost containment debate through the development of health care coalitions. At least 20 of these organizations are now in place, all of which have come into being within the last 3 years. They are fledgling efforts in many respects, and some will fall by the wayside out of frustration in attempting to impact the sophisticated issues of planning, quality assurance, and cost controls. On the other hand, these coalitions do represent an opportunity for the private sector to cooperate and to work with the public sector by first learning about and then challenging or supporting the regulatory process, where appropriate; by reviewing and giving priority to ideas that have demonstrated cost effectiveness; and by serving as a forum through which to preserve the things that are right in the health care system while changing the things that are wrong.

One of the early byproducts of these activities has been the realization of the need for the development of a management information system in the hospital field that will include uniform cost, billing, and utilization data, collected and aggregated at the state level and made available to interested users on request. The HCFA already has access to this information and is refining the system as it relates to Medicare and Medicaid. It also has the authority to expand the collection of such data to include the care rendered to all patients. South Carolina is one of the more advanced states in which the development of this information base is to be implemented, and should be complimented for its initiative. As the interested parties achieve higher levels of sophistication in dealing with cost containment options, the need for such information not only in monitoring and strengthening the effectiveness of the regulatory process but also in enabling employers and unions to determine how their experience compares with other major payors is emerging as a short-range priority to be addressed in the near future. Once such information is available, individual employers will be able to determine whether the introduction of coinsurance or other cost saving measures, such as pre-admission testing or second-opinion surgery, have a demonstrative impact on their plan's experience.

Furthermore, it will be possible to measure with more precision the effect of alternatives, such as the Voluntary Effort, state regulation, and the HCFA strategies, now in place. Fact must be substituted for emotion, and all parties concerned must work jointly to achieve change in the system where it is warranted.

During the early years of this decade there will be continued strong support for the present pluralistic system of financing with a minimum of additional government regulation for a number of reasons. First, it is the line of least resistance. Second, it enjoys an effective lobby of the health care professions at both the Federal and state levels. Finally, there is no organized consumer constituency for a uniform equitable system of hospital financing. There will also be more aggressive experimentation with voluntary initiatives for improved cost effectiveness, which will have limited impact on both an individual employer's experience and the health care costs of the community as a whole. During this period, the HCFA will refine its management information base for Medicare and Medicaid, progressively implementing options that will sharply reduce the rate of escalation in their costs while shifting an increasing burden to the private sector patient.

Efforts will continue in the states with mandated hospital cost control programs that will either raise their level of sophistication and effectiveness, or increase their vulnerability to capture by the hospital industry. The Medicare waiver will be used on a selective basis to support the state option where it is effective, and to test new ideas that may be incorporated in the future Federal strategies.

The pinch will come during the second half of the decade as the severe limitations on the present fragmented control process which underpin the current pluralistic financing system become more apparent. The debate will then be sharpened and the issues will be: "Should Federal controls be extended across the board?" or, "Should an alternative be devised in which the Federal Government obtains cost predictability by participation in the state process and surrenders its current options for arbitrary, unilaterally imposed limitations on the cost of care?"

If the principal participants in the debate are the Federal Government on one side and the health care professions on the other, the battle is likely to be one-sided. What is needed is a well-developed consumer constituency drawn largely from the business community that will devote the time to understanding the issues and accept a sense of responsibility for participating in the process. This way, the results will be better balanced and more responsive to public-interest concerns because the public itself will be involved.

(Continued from page 6)

Authority, Baldwin will warn management against the danger of EEOC "fishing expeditions" during an investigation.

Bottom Lines, a regular feature by Dr. James B. Edwards, Professor of Accounting and expert consultant to Management. In his initial offering this year, **Federal Tax Lines,** Dr. Edwards will discuss the Supreme Court ruling in the Thor Power Tool Company as a landmark decision requiring stricter guidelines in writing-down inventories.

Eye Care in South Carolina. Dr. Alan D. Bauerschmidt and Mrs. Judith W. Alexander, members of the Health Care Management faculty at USC, will consider the problem of eye care in South Carolina, given that both opthalmologists and optometrists regularly render fundamental aspects of such care. They will present the results of their survey, but will also point out that their findings in no way indicate either the adequacy or the quality of the care being provided.

Reducing Government Cost through Federal-State Tax Consolidation. Reducing the cost of big government is everybody's problem these days. Dr. Al L. Hartgraves of Emory University and Drs. Ronald M. Copeland and Howard P. Sanders of USC's Accounting faculty will discuss how government costs can be reduced through Federal-state tax consolidation.

The Management Bookshelf and **Statistical Indicators of South Carolina Business.**

Financing the Health Care System — Alternatives for South Carolina — Federal Government

By Phillip Jacobs

INTRODUCTION

There are two basic economic issues related to national health insurance. The first involves the problem of an adequate level of health care utilization by some, notably poor, people. The second relates to the problem of putting undue pressure on the health care system and on taxpayers by extending coverage to these people. The extension of health insurance coverage could result in any of the following: large increases in medical care costs and taxes to pay for these extensions; a deterioration in quality of medical services; and/or long waits before obtaining services. Accepting this reality, many legislators have become increasingly selective in what they are willing to give away in the name of "national" health insurance.

These problems are, of course, nothing more than specific expressions of some basic economic forces at work — the forces of "supply" and "demand." In this article the author will examine the issues of national health insurance using these basic economic tools. Because of space limitations, hospitalization and catastrophic insurance will be the primary areas of concern here.

Dr. Phillip Jacobs is Associate Professor of Health Care Economics in the College of Business Administration and the School of Public Health, The University of South Carolina. Dr. Jacobs holds B.Com. and M.A. Degrees from McGill University (Canada) and a D.Phil. Degree in Economics from the University of York (England). The author of a number of papers, he served as an Economist for the University of Montreal, the Dominion Bureau of Statistics (Ottawa), and the U.K. drug industry, and as a member of the faculty of Concordia University, Sir George Williams Campus (Montreal), before coming to USC.

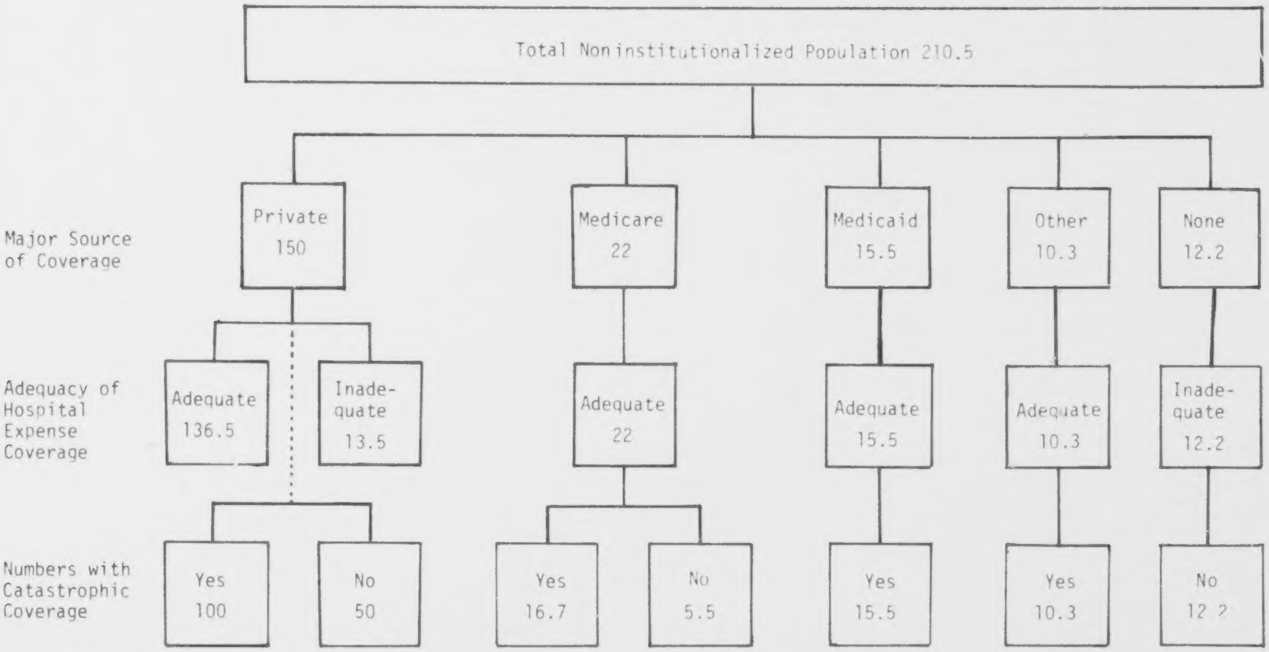
PROBLEMS RELATED TO INADEQUATE COVERAGE

The adequacy of health insurance protection usually becomes an issue when illness results in large expenses. Hospitalization insurance is insurance for basic hospital expenses which, typically, run from $700 to $1,200 per episode of illness. On rare occasions, an individual's expenses may run well above this figure, perhaps into the hundreds of thousands of dollars. Ordinary hospitalization coverage usually will have an upper limit on coverage. "Catastrophic" health care coverage takes over where ordinary coverage leaves off. A catastrophic or "major medical" policy will cover expenses incurred above a specific level (e.g., $3,000) and will continue until $100,000, or $250,000, in expenses have been incurred. In some cases, there may not be a ceiling.

A large proportion of the population of the United States is currently protected against hospitalization expenses and a somewhat smaller proportion against catastrophic expenses. Much of this coverage is through group plans with private insurance companies. In addition, there is a Federal "Medicare" program that primarily provides persons over 65 with basic hospitalization coverage, and a Federal-state revenue sharing "Medicaid" program offers recipients of certain broad welfare cash payment programs in all states comprehensive coverage. This latter program also is extended at the individual state's initiative to cover other "needy" groups. In the case of Medicaid, there is no uniformity with regard to whom is covered across states. Despite these Federal programs, however, there are still gaps in the sense that some people remain uncovered or undercovered.

A picture of the extent of the two types of coverage — hospitalization and catastrophic — in the United States in 1977 is presented in Figure 1. As can be seen from this figure, an estimated 197.8

FIGURE 1. Breakdown of Health Insurance Coverage by Source of Coverage for Hospital and Catastrophic Categories, United States, 1977*


Total Noninstitutionalized Population 210.5
Major Source of Coverage
Private 150
Medicare 22
Medicaid 15.5
Other 10.3
None 12.2
Adequacy of Hospital Expense Coverage
Adequate 136.5
Inadequate 13.5
Adequate 22
Adequate 15.5
Adequate 10.3
Inadequate 12.2
Numbers with Catastrophic Coverage
Yes 100
No 50
Yes 16.7
No 5.5
Yes 15.5
Yes 10.3
No 12.2

*All figures refer to population covered in millions

million persons out of a noninstitutionalized population of 210 million have some form of hospitalization insurance. It should be stressed that these figures are rough estimates based on sample data. While these data show that 12.2 million persons are not covered, other estimates have put this figure at twice that amount.[1] If the present estimates are accepted, the majority of insured persons, 150 million, are insured through the private sector. Another 37.5 million are insured through Federal Medicare and Medicaid programs, and 10.3 million are insured through other plans, such as armed forces and Veterans Administration coverage.

The fact that a person has some coverage, however, does not mean that he has enough. What is "adequate" can be a controversial topic, but if an adequate hospitalization policy is accepted as being one that pays an average of at least 80 percent of the amount of a typical case, then the number of persons with adequate hospitalization insurance is less than the number of persons with "some" coverage. Among private insurance holders, an estimated 13.5 million do not have adequate hospitalization coverage. To find the total number with "inadequate" coverage, another 12.2 million who have no insurance at all must be added. This comes to 25.7 million persons with "inadequate" hospitalization coverage.

The gap in catastrophic coverage is even greater. Over 50 million of those persons privately insured have no catastrophic coverage, and 5.5 million of those covered under Medicare (mostly over 65) do not have any supplemental catastrophic coverage (which is not provided in basic Medicare benefits). Another 12.2 million are totally uncovered, so the total number of persons who do not have catastrophic coverage is 67.7 million, or about one-third of the total population.

Although frequently regarded as such, a lack of insurance coverage by itself is not necessarily a bad thing. Some individuals, feeling they are sufficiently healthy, may choose not to insure. To

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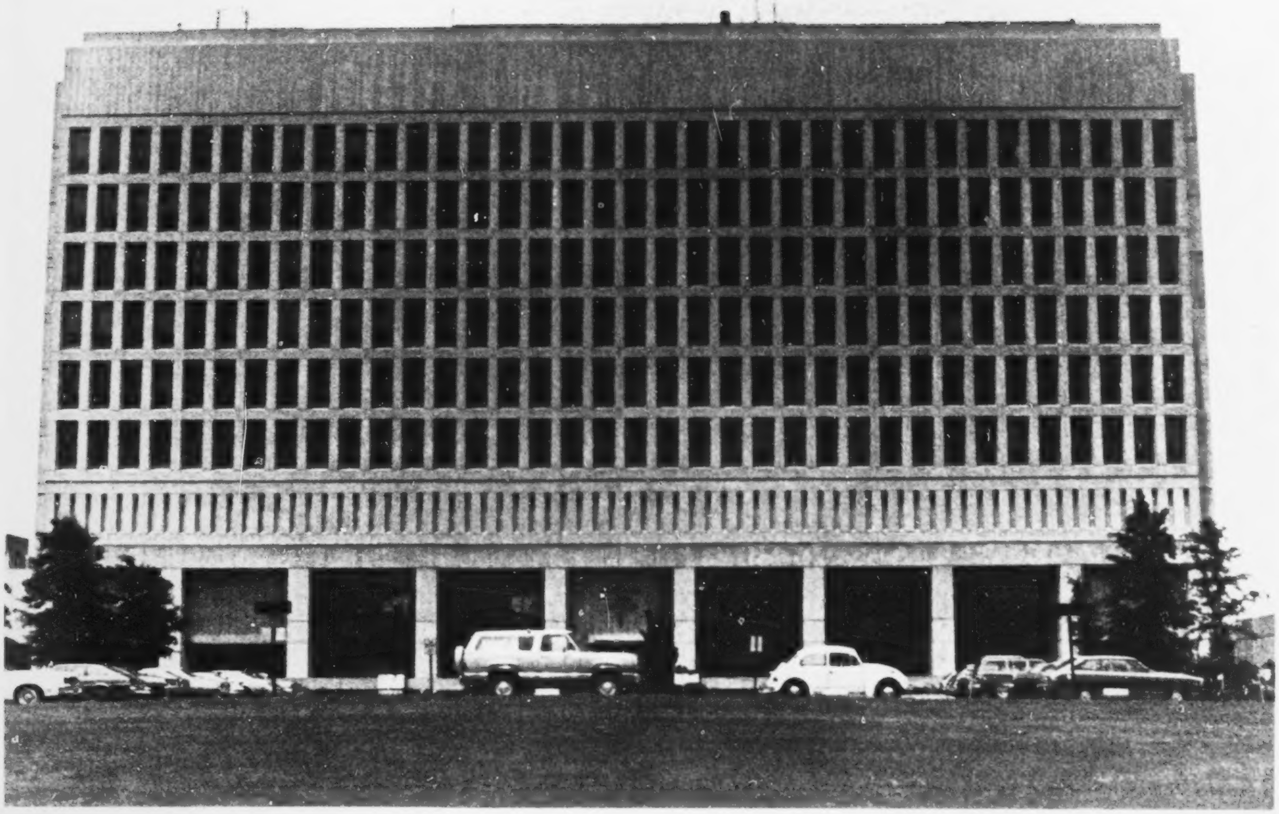
[1] U.S. Congress. Congressional Budget Office, **Profile of Health Care Coverage** (Washington, D.C.: Government Printing Office, March 1979); S.G. Suvodar and K. Sullivan, **National Health Insurance Issues: The Unprotected Population** (New York: Hoffman-LaRoche Co., 1977); S.G. Suvodar and P.H. Feinstein, **National Health Insurance Issues: The Adequacy of Coverage** (New York: Hoffman-LaRoche Co., 1979); U.S., Department of Health, Education, and Welfare, National Center for Health Statistics, **Health Care Coverage: United States, 1976**, Advanced Data Series 44, September 20, 1979; U.S., Department of Health, Education, and Welfare, National Center for Health Services Research, **A National Profile of Catastrophic Illness**, Publication Number (PHS) 78-3201, May 1978



Moncrief Army Hospital, Ft. Jackson, Columbia

the extent that this is the case, then the figure of 12.2 million having no coverage is really an overestimate of those for whom "no care" is consonant with "inadequate care." A breakdown of the uncovered population shows that 45 percent have incomes exceeding $10,000, and 22 percent are in the 19 to 44 year age groups. A more appropriate meaning of "inadequate" coverage then would exclude those who have the opportunity to obtain coverage but choose not to. This interpretation might well exclude a substantial number of uncovereds from the "inadequate" coverage group.

Given that a substantial number of people are un- or under-protected, why, then, is low or zero coverage considered "bad"? The reason stems from the behavioral relationship illustrated by the "demand curve" of economic analysis. The basic demand hypothesis states that the lower the direct price of any service to a consumer, the more of that service he will demand. Increased coverage means, in effect, a lower "out of pocket" price paid by the consumer for hospital services at the time of consumption. Greater coverage, the hypothesis states, will increase the quantity of hospital services people want.

The reasoning lying behind the demand hypothesis is that substitutes exist for the service in question. Outpatient surgery and drugs are among the services and commodities that can be substituted for many types of hospital treatment. As the direct price of hospital treatment falls, the alternative of hospitalization becomes more economically desirable than the substitute treatment, **if** hospital coverage has increased more than coverage of the substitute treatments. For recent years, this seems like a realistic interpretation of coverage trends.

Congressional Budget Office, **Profile of Health Care Coverage.**

The demand hypothesis is illustrated with reference to three separate groups in Figure 2 (b). This figure shows the demand curves for (i) consumers with private insurance, (ii) consumers with public insurance, and (iii) consumers with no insurance. All three groups demonstrate the same basic behavior, that is, as their coverage increases and the direct price they pay for hospital care is lowered, they will demand more. Differences in quantities demanded can be attributed to some extent to different degrees of coverage among the three groups.

Assume that, in the absence of insurance, consumers must pay the full cost of $5 per admission. Consumers who are privately insured, as in part (i), pay a "typical" copayment rate of 20 percent of costs, which means a price of $1 per admission (the insurance company covering the other 80 percent). At such a "low" direct price, this group demands 5,000 admissions. Group (ii) members, who are publicly insured, pay no direct price at all: for them, medical care is "free." There being no monetary disincentive for this group to cut back on hospitalization, they will demand 6,000 units, the quantity shown on their demand curve, which corresponds to an out-of-pocket price of zero. Finally, group (iii) members, who have no insurance and must pay the full cost out-of-pocket, has a unit price of $5. This group demands only 1,000 admissions. Therefore, the amount demanded by each group depends on the coverage that group has.

Had the full price of $5 been charged to group (ii) directly, they would have consumed no medical care, while group (iii), had they had full public insurance, would have demanded 3,000 admissions. The major reason for offering group (ii) public insurance would be that they would not have consumed "enough" medical care without it. If the same were felt for group (iii), there may be some reason for offering the members of this group public insurance as well. Indeed, if there is some reason to believe that the group with no coverage in Figure 1 cannot afford medical care insurance premiums and cannot afford medical care, there is a case for extending public insurance to cover them.

PROBLEMS RELATED TO EXCESSIVE COVERAGE

How far, though, should coverage be extended? In the example above, all of society currently

An aerial view of the William Jennings Bryan Dorn Veterans Administration Medical Center, Columbia

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In this presentation this author has abstracted from several other factors that might influence demand, such as levels of health of the community or group. These other factors will cause the entire demand curve to shift in or out, depending upon whether they have a dampening or stimulating effect on demand.

demands 12,000 admissions. If everyone were fully insured (i.e., paid a zero price), the total number of admissions demanded would be 15,000—an increase of 25 percent.

Associated with the extension of coverage is the problem of overuse, for it may well be that some or much of the additional demand is not strictly necessary. There are many ways in which consumers can overuse a health care system: they can stay in the hospital an extra day or two; they can acquiesce to their physicians' suggestions that additional (marginally desirable) tests be run; they can use more convenient and (to them) cheaper inpatient services instead of less fully covered outpatient services. All of this excessive use stems from the provision of medical care "for free." The consumers are no longer aware that medical care is scarce. Indeed, to them there is no scarcity price whatsoever, so there is no incentive to seek out cheaper substitutes. Further, with the complexity of medical care being what it is, what is "necessary" and what is "excessive" relies on judgment calls. Free care, then, does the job of encouraging demand, but in some cases it does it too well.

It is for this reason that insurance companies and some public programs put on "copayment" charges, which require that users pay at least some portion of the cost of medical care. This copayment has the effect of confronting the consumer with the fact that the service is not free, thereby offering an incentive for the consumer to economize willingly on his use, rather than having costly and controversial utilization review processes attempt to do the same job.

CURRENT NATIONAL HEALTH INSURANCE PROPOSALS

A large number of health insurance bills have been introduced in the most recent session of Congress. Virtually every special interest group, from the health insurance companies to the medical profession, from the hospitals to the labor unions, have sponsored bills, each with its own special flavor. Among the more prominent of these bills are the Administration bill, called the "National Health Plan Act" (Senate Bill S 1812); Senator Kennedy's "Health Care for All Americans Act" (Senate Bill S 1720); and Senator Long's "Catastrophic Health Insurance Act" (Senate Bill S 351). All three bills are designed to fill some of the gaps mentioned previously. Perhaps the major gap addressed by these bills, though, is that of catastrophic coverage.[3] These particular bills go farther than most other legislation proposed in that they also attempt to provide coverage for the poor who do not have basic coverage, as well as encourage universal catastrophic coverage.

These three bills propose extending basic hospitalization coverage to the "uncovered poor," either through the extension of Medicaid (Long) or through more unified programs (Administration, Kennedy). In addition, all propose to mandate employer provided catastrophic care. However, the Administration and Long bills are consistent with some copayments on basic coverage to choke off demand. Under the Kennedy plan, **all** care would be free. All three plans would generate additional demand with the Kennedy plan generating the largest increase in demand.

Once it is recognized that extra demand will be generated, the focus will turn to supply and cost considerations. Will there be a sufficient increase in production to meet the added demand? If so, what will the cost be? If not, what repercussions are likely to ensue? The answers to these questions lie in the reimbursement policies set out in the various plans. Both the Administration bill and the Kennedy plan propose to tighten provider reimbursement considerably; the Long plan has no such explicit provisions. To examine the effect of tighter reimbursement policies on the market, it is necessary to look at the supply aspects of the market.

PROVIDER REIMBURSEMENT AND SUPPLY

Making medical care "free" without ensuring that supply will increase adequately is like giving car keys away without having one car per set of keys. With a health care policy that expands demand, there must also be a reimbursement and investment policy that increases supply if there are not to be undesirable side effects on the system. Figure 2 (a) illustrates the behavior of the supply side of a hospital care market. The analytical device used in this figure is a supply curve, a curve relating the per admission reimbursement rate received by the hospitals to the number of cases treated. Line S_1 is one such supply curve. If the actual supply response of hospitals in a given market were well represented by this particular curve, then a higher per admission reimbursement rate would be needed to encourage the supply of additional cases.

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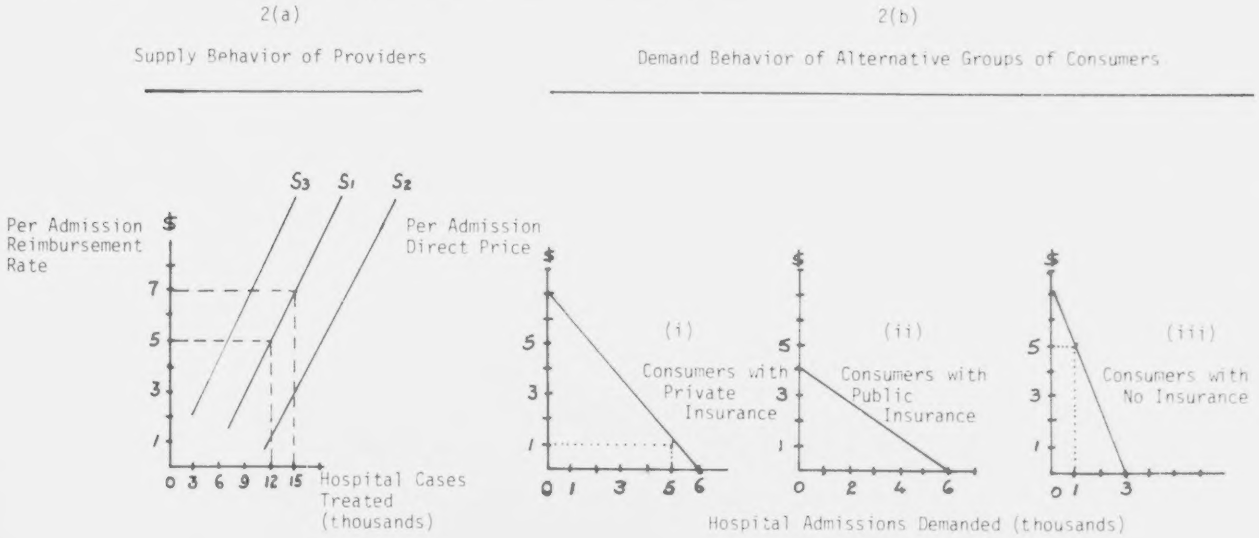
[3] U.S. Congress. Senate. Committee on Finance. **Comparison of Major Features of Health Insurance Proposals.** 96th Cong. 1st sess. June 1979

FIGURE 2. Illustration of the Supply and Demand for Hospital Care


2(a)

Supply Behavior of Providers

2(b)

Demand Behavior of Alternative Groups of Consumers

Associated with any given supply curve is a given capacity (e.g., given bed count) and a given quality of care (e.g., a certain level of medical specialization). The slope of the supply curve is determined by the cost of treating patients. As the hospital increases its output and moves closer to its given capacity level, unit costs rise, indicating that a greater per admission resource effort is needed to provide a larger amount of care. If the capacity of the hospitals increase, then any given level of production becomes less close to full capacity and can be produced more economically; this is another way of saying that the supply curve will shift to the right (from S_1 to S_2) when capacity increases. Finally, if quality increases, more resources are needed to produce each unit of output, and output becomes more costly. When this happens, the supply curve shifts to the left (i.e., from S_1 to S_3). This means that at any given reimbursement rate, the hospitals will be willing to treat fewer patients than previously.

With a supply response indicated by S_1, a reimbursement rate of $5 per admission would just provide the hospitals with incentives to supply 12,000 admissions which is exactly what is demanded under the coverage arrangements indicated in Figure 1. If insurance is extended to meet the conditions under such a plan as that proposed by Senator Kennedy, 15,000 cases of treatment would have to be supplied (since everyone would have free care). With given capacity and quality, the reimbursement rate would have to be increased to $6. This would bring forward the desired amount of supply, but at a large cost increase: total costs (reimbursement rate times cases treated) would increase by 50 percent, from $60,000 to $90,000. This would pose a heavy burden on the taxpayer.

There are several alternative solutions, some of which are implicit in the proposed bills mentioned above. First, capacity can be expanded by encouraging hospital investment. Subsidizing hospital interest payments and allowing favorable reimbursement of depreciation would encourage hospitals to expand capacity (e.g., from S_1 to S_2). While the capital costs of such a program might be considerable, the hospitals could then meet the increased demand with perhaps only moderate reimbursement rate increases. None of the plans mentioned above anticipate such increases, however.

A second alternative would be to keep rates at roughly their present levels, and to encourage consumers to use the system as it now stands. This is very close to what both the Kennedy and the Administration bills propose. However, the Kennedy proposal would expand demand much more than the Administration proposal. Since the market cannot supply the extra demand at current reimbursement rates and maintain quality at the same time, something will have to give. One possibility is that hospitals will maintain their current levels of service, and patients will have to wait for treatment. The wait would depend upon the severity of the patient's condition (hopefully) and upon how many extra patients seek treatment.

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School of Medicine

The University of South Carolina School of Medicine. Building #1 of the William Jennings Bryan Dorn Veterans Administration Medical Center, Columbia

This "solution" was the one chosen by England and Wales in establishing its National Health Service after the war. Waiting times there have been considerable.

There is also another alternative. If the government were willing to compromise a bit on quality, it could insist that patients be treated promptly. Overcrowding and carelessness might result, but more patients could be processed. In terms of Figure 2(a), the supply curve could be shifted to the right, e.g., from S_1 to S_2. Then the hospital system could supply up to 18,000 treatments at a reimbursement of \$5 per case. Under the pressure that would result, though, side effects such as hospital caused infections, excessively early discharges, and patient discomfort would result.

CONCLUSION

National health insurance is an attempt to encourage a greater use of the health care system by those who are not obtaining enough medical care. The several proposals considered in this article have one thing in common: they desire to extend use while cutting back on the resources committed to serving this increased demand. These proposals differ in the degree to which they do this, but all have the same objectives. The analysis here has shown that while increases in demand will inevitably result from such plans, these increases will not be met at current cost levels. More resources will have to be moved into the health care industry to increase utilization, if quality levels of care are to be maintained. Any attempt to circumvent this will merely cause other strains on the system.

To some degree, most currently proposed legislation recognizes that the present emphasis is on catastrophic coverage, a program that can be called "national" in scope but which will have a relatively small cost. It seems likely that more grandiose schemes of "national" scope will have to wait.

The Management Bookshelf

By Dwight Gardner, Business Librarian, M.B.A., M.S.L.S.

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THE REAL ESTATE HANDBOOK

Edited by Maury Seldin
Dow Jones-Irwin
1818 Ridge Rd.
Homewood, Ill. 60430
1980, 1,186 pp., $37.50

Here is an authoritative, comprehensive, and up-to-date guide to the real estate industry. It should prove a valuable reference source for both students and practitioners, since 78 authorities in the field have contributed their expertise in compiling this volume.

HOW TO SELECT A BUSINESS SITE

by Jon E. Browning
McGraw-Hill Book Co.
1221 Ave. of the Americas
New York, N. Y. 10020
1980, 225 pp., $14.50

This volume is aimed at the executive responsible for choosing a site for expanding or relocating a business. It gives practical advice on recognizing the most important factors in the site selection process, and guides the reader through the necessary steps in formulating a successful site selection plan.

ORGANIZATIONAL PARADOXES: CLINICAL APPROACHES TO MANAGEMENT

by Manfred F. R. Kets des Vries
Methuen, Inc.
777 Third Ave.
New York, N. Y. 10017
1980, 224 pp., $14.95

Here the author looks at how managers behave in their daily activities and suggests the psychological explanations for their behavior. Vries examines various types of managers, analysing their styles and explaining how they interact with their organizations.

THE INFLATION BEATER'S INVESTMENT GUIDE

by Burton G. Malkiel
W. W. Norton & Co., Inc.
500 Fifth Ave.
New York, N. Y. 10036
1980, 190 pp., $8.95

Malkiel contends that common stock offers the investor the best hedge against inflation. He uses charts and graphs to demonstrate how they are undervalued relative to such other investments as gold, art, and real estate. He also gives practical advice on building a stock portfolio and choosing premium stocks at a discount.

MANAGING IN TURBULENT TIMES

by Peter F. Drucker
Harper & Row Publishers, Inc.
10 E. 53rd St.
New York, N. Y. 10022
1980, 220 pp., $9.95

Drucker's latest offering advises management on how to survive and profit in the 1980's. It outlines what to expect in the upcoming business environment and world economy, and tells what must be done to take full advantage of future opportunities.

SKILLS FOR SUCCESS: A GUIDE TO THE TOP

by Adele M. Scheele
William Morrow & Co., Inc.
105 Madison Ave.
New York, N. Y. 10016
1979, 245 pp., $9.95

This author discusses those hidden, nontechnical skills that successful people apply to advance their careers. He concentrates his analysis on six special areas of competence, and includes in his discussion interviews with a number of prominent executives.

* * *

Readers are invited to submit titles of books that they wish to call to the attention of others.

STATISTICAL INDICATORS OF SOUTH CAROLINA BUSINESS

ITEMS	June 1980	June 1979	Latest Month Percentage Change from Year Ago
Deposits, Member Banks ($ millions)	$ 3,079	$ 2,887	+ 6.7
Demand	1,562	1,567	a
Time	1,517	1,320	+ 14.9
Loans, Member Banks ($ millions)	2,157	2,067	+ 4.4
Savings in Savings and Loan Associations ($ millions)[b]	5,259	4,934	+ 6.6
Sales and Use Tax Collections ($ thousands)	44,494.5	42,098.7	+ 5.7
Labor Market			
Civilian Labor Force (thousands)	1,315.0	1,337.8	1.7
Employment	1,204.2	1,269.6	5.2
Rate of Unemployment (percentage)[c]	8.4	5.1	+ 64.7
Nonfarm Wage and Salary Employment (in thousands)[c]	1,194.1	1,193.7	a
Manufacturing[c]	383.9	404.7	5.1
Contract Construction[c]	71.8	75.1	4.4
Transportation and Public Utilities[c]	53.9	53.8	a
Wholesale and Retail Trade[c]	231.0	225.0	+ 2.7
Finance, Insurance, and Real Estate[c]	49.3	47.4	+ 4.0
Services, Mining, and Miscellaneous[c]	169.1	159.8	+ 5.8
Government[c]	235.1	227.9	+ 3.2
Average Hourly Earnings, All Manufacturing (in dollars)	$ 5.50	$ 4.99	+ 10.2
Initial Unemployment Claims Filed in South Carolina	40,371	13,415	+200.9
Placements by South Carolina Employment Offices (nonagricultural)	12,610	12,710	0.8
Indexes of Prices Received by Farmers (1966-68: 100)			
All Farm Products	210	216	2.8
All Crops	234	232	+ 0.9
Livestock and Products	194	218	11.0
S.C. Parity Ratio	76	87	12.6
New Motor Vehicle Registrations			
Cars	7,927	10,453	24.2
Trucks	2,370	3,072	22.9

	June 1980	June 1979	First 6 Months 1980	First 6 Months 1979	Percentage Change
Valuation of Building Permits Issued ($ millions)[d]					
Total for all S.C. Counties	$155.1	$160.0	$838.1	$920.9	9.0
Available County Data					
Aiken	2.9	13.9	11.6	33.5	65.4
Berkeley	3.4	4.9	36.7	25.9	+41.7
Charleston	13.1	18.3	88.2	114.7	23.1
Dorchester	2.6	4.4	16.6	28.6	42.0
Lexington	33.3	8.3	67.1	48.9	+37.2
Richland	9.3	9.0	58.4	61.4	4.9
Greenville	12.5	22.9	93.9	106.2	11.6
Pickens	1.7	7.9	29.0	22.4	+29.5
Spartanburg	7.9	10.1	37.3	63.2	41.0

[a] Less than one-half of 1 percent

[b] Due to the termination of certain data series by the Federal Reserve Bank of Richmond, this series has been replaced by the Federal Home Loan Bank of Atlanta

[c] Ibid., the South Carolina Employment Security Commission

[d] Note: These amounts are now being reported in millions of dollars instead of thousands of dollars

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